AR17

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

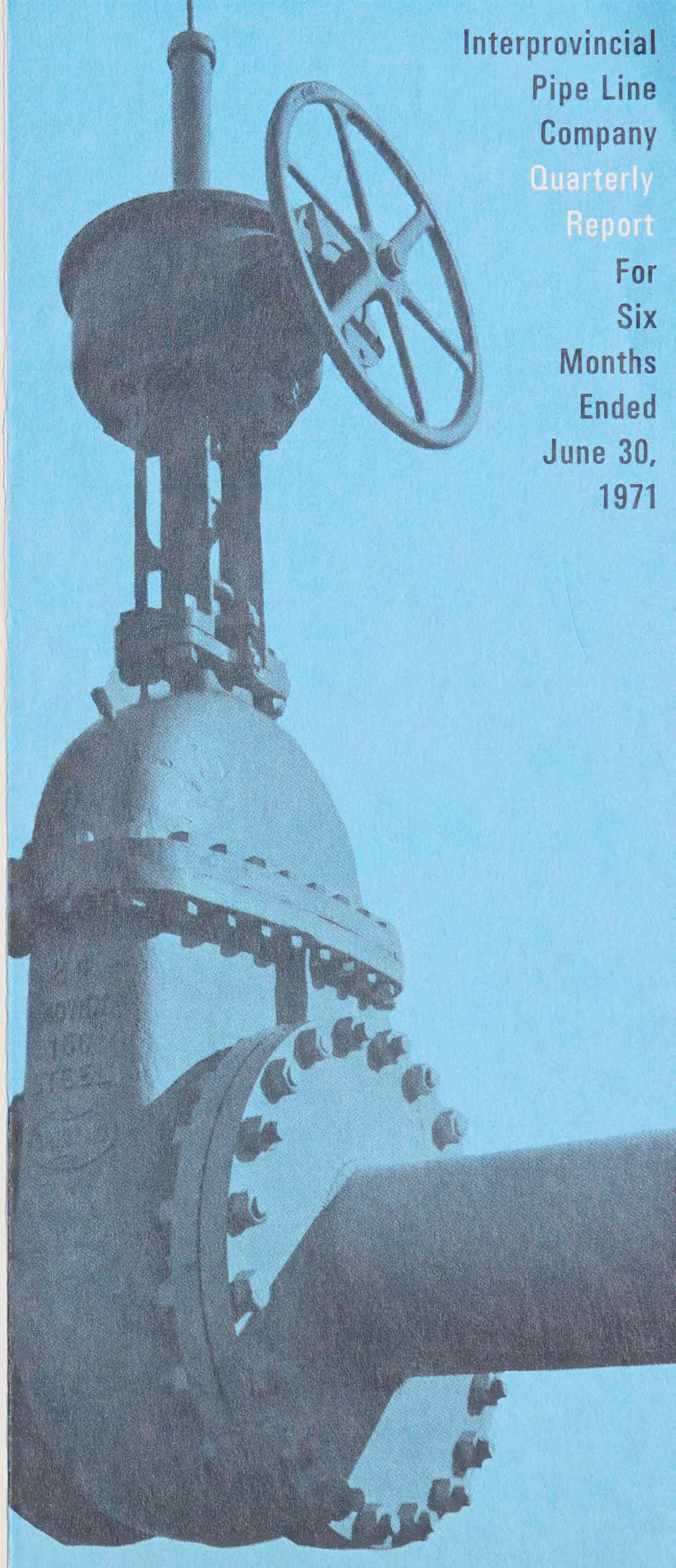
(Unaudited, $000's omitted)

	For six months ended June 30	
	1971	1970
Source of Funds		
Earnings for period	$ 16,046	$ 14,967
Depreciation	8,970	8,675
Deferred income taxes	3,218	2,856
Other (net)	315	481
Bank loans	—	15,000
	$ 28,549	$ 41,979
Application of Funds		
Dividend	$ 10,688	$ 10,176
Capital expenditures	19,859	6,712
Long term debt reductions	13,717	24,957
	$ 44,264	$ 41,845
Change in Working Capital	$(15,715)	$ 134
Working Capital—January 1	$ 31,848	$(10,490)
Working Capital—June 30	$ 16,133	$(10,356)

Deliveries of Crude Oil (barrels per day):

	1971	1970
First Quarter	988,235	978,275
Second Quarter	897,840	791,110
Third Quarter	—	865,294
Fourth Quarter	—	969,486

PRINTED IN CANADA



Interprovincial Pipe Line Company

Quarterly Report

For Six Months Ended June 30, 1971

Interprovincial Pipe Line Company

and subsidiary companies

REPORT FOR SIX MONTHS ENDED JUNE 30, 1971

TO THE SHAREHOLDERS:

Throughput

With the quantity of Canadian crude oil that may be imported into the United States east of the Rocky Mountains in 1971 firmly established at 450,000 barrels per day (plus natural gas liquids), the pipe line system continued to operate at a relatively uniform level of throughput to capacity during the second quarter of the year. As is to be expected, the demand for refinery feedstocks in all areas served by the company was not as high in the second quarter of the year as in the first quarter. Nevertheless overall throughput at 897,840 b/d was 100,000 b/d higher than in the second quarter of 1970. Deliveries in the United States averaged 418,160 b/d in the second quarter of 1971 as compared to 472,861 b/d in the first quarter.

Total deliveries of crude oil and natural gas liquids during the first six months of 1971 compared with 1970 as follows:

	First six months	
DELIVERIES (barrels per day)	1971	1970
Western Canada	105,461	105,548
United States	445,360	410,893
Ontario	391,967	367,734
	942,788	884,175
BARREL MILES (millions)	235,049	217,047

Construction

The extensive horsepower program that is being undertaken between Edmonton and Chicago is proceeding on schedule, as is the 80 miles of 20-inch looping and horsepower that is being installed in Ontario. The construction contracts have all been awarded—equipment costs and deliveries to date have been gratifying—and it is now expected that the entire program will be completed by the end of the year—well within the original estimate of $59 million.

The horsepower program will increase the capacity of the pipe line system between Edmonton and Sarnia by 200,000 b/d to 1,300,000 b/d ex Cromer, Manitoba. The looping and horsepower program in Ontario will increase the capacity of the pipe line system east of Sarnia by 40,000 b/d to 355,000 b/d.

Proposed Sale of Redwater Line

Application has been made to the National Energy Board of Canada for permission to sell the Redwater line to The Imperial Pipe Line Company. This system consists of 30 miles of 16-inch pipe between Redwater, Alberta and Edmonton together with a pumping station and three receiving tanks at Redwater. The capacity of this line is going to have to be increased as the capacity of the gas plant at Redwater is increased and this can best be done by the gas plant installing sufficient pumping units to pump right through to Edmonton.

Dividend

On July 28, 1971 a quarterly dividend of 22¢ per share was declared payable September 1 to shareholders of record August 9.

Toronto, Ontario
August 6, 1971

D. G. WALDON
President

CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited, $000's omitted)

	For six months ended June 30	
	1971	1970
INCOME		
Transportation revenue	$69,419	$66,221
Other income	1,733	730
	$71,152	$66,951
EXPENSES		
Operating and administrative	$14,158	$12,721
Taxes, other than income	4,940	4,720
Depreciation	8,970	8,675
Interest	9,808	9,591
	$37,876	$35,707
Earnings before income taxes	$33,276	$31,244
Provision for income taxes	17,230	16,277
Earnings	$16,046	$14,967
Earnings per share	63¢	59¢

AR17

File

October 6, 1971

PRESS RELEASE

INTERPROVINCIAL PIPE LINE COMPANY'S expansion plans for 1972 have now been confirmed. Following a Board Meeting today, the company announced that, subject to the approval of the National Energy Board as regards the additional facilities in Canada, it was embarking on a 48-inch looping and horsepower program that would increase the capacity of its pipe line system by 100,000 barrels per day to 1,400,000 b/d ex Cromer, Manitoba, by the end of 1972.

A total of 92 miles of the four-foot pipe will be laid between Edmonton, Alberta and Superior, Wisconsin in the form of 17 loops on the existing 34-inch line, ranging in length from 3 miles to 9 miles. The 90,000 horsepower that will be added consists of 17 electric units at existing pumping stations and a new two-unit pumping station on the 30-inch line between Griffith, Indiana and Sarnia, Ontario.

The capacity of the 12-inch line from Westover, Ontario to Buffalo, New York will also be increased to 145,000 b/d by the addition of a further 18 miles of 20-inch loops. In addition a total of eight receiving and break-out tanks will be erected as follows: two 390,000 barrel tanks at Edmonton; two 80,000 barrel tanks at Clearbrook, Minnesota; two 390,000 barrel tanks at Superior; and two 217,000 barrel tanks at Griffith. The entire Interprovincial/Lakehead program is estimated to cost $61 million.

To the best of the company's knowledge, the 48-inch pipe that it proposes installing in 1972 will be the largest pipe ever used for an oil line on the North American continent. The installation will mark the commencement of a fourth line from Edmonton to Superior - a distance of 1,100 miles - which the company expects to complete in stages.

D. G. Waldon
President

Interprovincial Pipe Line Company
Room, 7 King Street East
Toronto, Ontario

January 27, 1971

FOR IMMEDIATE RELEASE

Consolidated net income (unaudited) of INTERPROVINCIAL PIPE LINE COMPANY amounted to $29.5 million in 1970, equivalent to $1.16 per share. In 1969 the company earned $24.4 million or 96¢ per share.

With the opening of the Chicago market to Canadian oil, deliveries of crude oil and natural gas liquids averaged 900,919 barrels per day in 1970, some 16% more than the 775,971 barrels per day averaged in 1969. Capital expenditures totalled $17.8 million.

As previously announced, the 1971 expansion program is presently estimated at $59 million, largely for horsepower between Edmonton and Sarnia. East of Sarnia the capacity of the pipe line system to Toronto and Buffalo is being increased largely by looping. In all 81 miles of 20" loops will be constructed in Ontario.

A quarterly dividend of 20¢ per share was declared today payable on March 1 to shareholders of record on February 4.

D. G. Waldon
President

Interprovincial Pipe Line Company
7 King Street East
Toronto 210, Ontario

BANKERS SECURITIES
OF CANADA LIMITED
BUSINESS ESTABLISHED 1912
112 KING STREET WEST, TORONTO, CANADA
TELEPHONE 366-2591

RESEARCH REPORT

File

INTERPROVINCIAL PIPE LINE COMPANY

SUMMARY AND CONCLUSION

Interprovincial Pipe Line Company and its wholly-owned United States subsidiary, Lakehead Pipe Line Company, are engaged exclusively in the transportation of crude oil and other liquid hydrocarbons from the Canadian West to refineries in Eastern Canada, the Prairie Provinces, and the United States Midwest. Since the Company's System became operational in 1950, a rising volume of production and a healthy growth in demand by Canadian and Midwest refiners has necessitated large capital outlays for the construction of new lines and pumping stations and for the looping of existing lines. As volume and the average length of haul have increased, the Company has reduced tariffs with the result that, despite the financial and operating leverage inherent in a pipeline operation, the growth in net profit has tended to lag behind the increase in mileage per barrel and unit volume. Although barrel miles and throughput have increased at healthy rates of 11.5 percent and 9.3 percent per annum respectively since 1960, net profit has recorded a much more modest growth of 5.3 percent per annum.

Forecasts of a substantial increase in exports to United States Districts I–IV suggest a large increase in the volume of crude shipped through the System over the next few years and a healthy growth in the Company's revenues. We have estimated that, given a favourable industry environment, IPL should be able to achieve a growth in earnings over the next four years of approximately 12.5 percent per annum. However, this projection is predicated on what we believe to be **optimum** operating and industry conditions and is subject to many uncertainties which could change the picture considerably. The two most important and immediate areas of concern are the present limitations on the productive capacity of the Western oilfields, and the very real possibility that the Company's expansion program will occur at an earlier date and involve heavier capital outlays than anticipated.

At the recent price of $28, the stock is trading at a multiple of 19.7 times our estimate of fiscal 1971 earnings of $1.42 per share, and 13.0 times projected fiscal 1975 earnings of $2.08 per share. In view of the number of extenuating factors which could adversely affect our projections, these earnings multiples adequately discount the Company's near-term prospects. Although the Company has excellent sponsorship and is highly regarded as a quality investment, the shares have advanced about 60 percent since mid-1970, and now appear to be approaching a fully-priced condition. While some moderate further appreciation seems possible, it would be prudent, in our opinion, to reduce holdings and take profits.

January, 1971

CONTENTS

COMPANY BACKGROUND

Interprovincial Pipe Line Company and its wholly-owned United States subsidiary, Lakehead Pipe Line Company, are engaged exclusively in the transportation of crude oil and other liquid hydrocarbons from the Canadian West to refineries in Eastern Canada, the Prairie Provinces, and the United States Midwest. The Company owns and operates the free world's longest crude oil pipeline which consists of approximately 5,200 miles of pipe with diameters ranging from 12 inches to 34 inches, 48 pumping stations with a total of 485,955 installed horsepower, and tankage facilities of over ten million barrels. The System consists of three main parallel lines; a line extending from Redwater, Alberta, to Port Credit, Ontario, via Superior, Wisconsin, and the Straits of Mackinac; a line consisting of both 24-inch and 26-inch pipe extending from Edmonton, Alberta, to Superior, Wisconsin; a line consisting of 30-inch and 34-inch pipe running from Edmonton to Sarnia, Ontario, paralleling the other two lines to Superior, and thereafter routed through Chicago to Sarnia. Lakehead Pipe Line Company owns and operates the portion of the pipeline System in the United States.

IPL's pipeline System, which became operational in 1950, has been expanded significantly to accommodate a rising volume of production and a healthy growth in demand for Canadian crude by both Canadian and Midwest refiners. This expansion has, over the years, necessitated large capital outlays for the construction of new lines and pumping stations, and for the looping of existing lines. As volume and the average length of haul have increased, the Company has reduced tariffs with the result that, despite the financial and operating leverage inherent in a pipeline operation, the growth in net profit has tended to lag behind the increase in mileage per barrel and unit volume. Although barrel miles and throughput have increased at healthy rates of 11.5 percent and 9.3 percent per annum respectively since 1960, net profit has recorded a much more modest growth of 5.3 percent per annum.

Imperial Oil Limited owns approximately 33 percent of the outstanding common stock of IPL, two other oil companies own about 9 percent, and the remaining 58 percent of the outstanding shares are held by about 22,000 shareholders.

Receipts of Crude Oil

IPL receives crude oil into its System from major oil fields in Western Canada through gathering systems owned and operated by others. These pipelines connect with IPL's System at seven different locations in Western Canada. In addition, the System receives small quantities of Ontario Production at Sarnia. In 1969, approximately 69 percent of total receipts were from Alberta, 29 percent from Saskatchewan, and 2 percent from Manitoba. The Company has over thirty customers who tender crude oil and other liquid hydrocarbons to its System for shipment. The six largest shippers account for nearly 60 percent of pipeline revenues. Imperial Oil Limited, Shell Canada Limited, and Gulf Oil Canada Limited account for approximately 18 percent, 11 percent, and 9 percent respectively.

Since the discovery of the Leduc oil field in 1947, the proved reserves of liquid hydrocarbons in the Prairie Provinces have risen steadily and the Canadian petroleum industry has almost achieved a point of self-sufficiency. This stable reserve position and the strong production capabilities of Western Canadian oil fields over the years has meant that, until recently, IPL's expansion plans were based on what the Company thought the demand for crude would be, rather than on any objective consideration of supply factors.

The following table illustrates that historic trend in crude oil reserves and production in the Prairie Provinces and IPL's increasing share of this production.

Crude Oil Reserves and Annual Production in the Prairie Provinces
(Millions of barrels).

	Reserves	Production	Reserve Life Index	IPL Receipts*	Receipts as a percent of Production
1960	3,574	190	18.8	128	67.4
1961	4,035	222	18.2	146	65.8
1962	4,284	241	17.8	158	65.6
1963	4,688	247	18.9	173	70.0
1964	5,915	262	22.8	183	69.8
1965	6,423	277	23.2	203	73.3
1966	7,476	302	24.8	219	72.5
1967	7,822	330	23.7	234	70.9
1968	8,042	355	22.6	266	74.9
1969	8,295	380	21.8	287	75.5
Annual Increase 1960-69	9.9%	8.0%		9.4%	
Annual Increase 1965-69	6.5%	8.2%		9.0%	

* Receipts from Prairie Provinces only.

Deliveries of Crude Oil

IPL delivers either directly or through connecting carriers to 45 different refineries in eight Canadian and fourteen United States centres. Approximately 19 million barrels of oil are required to fill the pipeline System which, at any one time, carries as many as 200 batches consisting of about 30 different types of crude and natural gas liquids.

The greatest portion of the crude oil and other liquid hydrocarbons carried in the Company's System are delivered to refineries and other pipeline companies located in Ontario and the Great Lakes area of the United States. In fiscal 1969, deliveries in Canada amounted to nearly 60 percent of total volume handled, with Ontario accounting for approximately 75 percent of this amount. In addition, IPL supplies most of the crude oil requirements of refineries in Saskatchewan and Manitoba. In Alberta, the Company delivers crude to Trans Mountain Oil Pipe Line Company at Edmonton, for shipment to West Coast refiners.

Approximately 40 percent of the oil carried in IPL's System is delivered to the rapidly growing markets in the United States Midwest. The following table illustrates the relative position of the Company's markets and the rapid growth of shipments to the United States.

Breakdown of Deliveries by Market Area
(millions of barrels)

	Ontario		U.S. Midwest		Western Canada		U.S. West Coast		Total IPL Deliveries	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1960	71	53.3	23	18.0	28	21.6	6	5.1	128	100.0
1961	80		33		27		6		146	
1962	86		39		30		3		158	
1963	98		42		31		1		172	
1964	104		47		31		2		184	
1965	113	55.2	53	25.8	33	16.4	5	2.6	204	100.0
1966	117		65		36		3		221	
1967	116		78		36		3		233	
1968	124		99		37		2		262	
1969	128	45.3	114	40.4	39	13.6	2	0.7	283	100.0
Annual Increase										
1960-69	6.9%		19.5%		3.8%		(7.0%)		9.3%	
1965-69	3.3%		21.5%		3.5%		(14.0%)		8.5%	

REGULATION

IPL and its subsidiary, Lakehead Pipe Line Company, maintain joint tariffs for shipment of oil through the System which are filed with the appropriate authorities. Charges for oil delivered by the System are paid to IPL which, in turn, pays Lakehead its share under the joint tariffs.

The Company's operations in Canada come under the jurisdiction of the National Energy Board and, in the United States, under the Interstate Commerce Commission. Both bodies are impowered to regulate the rates which IPL can charge for transporting crude and, therefore, are in a position to significantly influence the Company's profitability.

In Canada, the National Energy Board has, as yet, not had occasion to question the Company's rate structure despite the fact that IPL's return on invested capital and equity has been exceptionally good over the years. This can probably be attributed to the Company's policy of voluntarily reducing tariffs, and the Board's recognition of the importance of a good rate of return if funds are to be attracted to an industry with large capital requirements.

In the United States, the Interstate Commerce Commission, although a regulatory authority, acts more in a judicial capacity and, as a rule, does not normally question a rate unless a complaint is registered. Historically, there has been generally good relationships between the oil companies and IPL, and differences have, for the most part, been settled among themselves.

Rates from the two main receiving points to the principal delivery areas are presently as follows:

To	Rates for light crudes in cents per barrel from: Edmonton	Cromer
Regina	20.7¢	—
Cretna	29.5	11.4¢
Clearbrook	32.5	16.7
Superior	36.3	22.5
Detroit/Toledo	53.0	42.3
Chicago	45.0	34.0
Sarnia	48.0	37.3
Toronto	51.0	40.3
Buffalo	53.0	42.3

The magnitude of the Company's rate reductions over the years is documented by the current and historic rates applicable to the Edmonton/Superior haul. When first established in 1950, the tariff for the transportation of light crude from Edmonton to Superior was 54.0¢ per barrel plus an additional one percent of all oil received to cover handling and evaporation costs. The present rate is 36.3¢ per barrel and the one percent allowance has been eliminated.

It is unlikely that there will be any further tariff reductions in the near future for reasons discussed later in this report.

OPERATING RECORD

Five-Year Performance

IPL's earnings growth over the past five years has been modest, and this has been mainly due to a substantial expansion of its facilities during the period.

In fiscal 1967, the System was operating at near capacity and this resulted in abnormally high maintenance and fuel and power costs. This, together with increased salaries and wages, caused earnings to record no measurable improvement during the year. In fiscal 1968, higher property taxes, depreciation and interest expense resulting from the $76.7 million expansion in 1967, and the introduction of the income tax surcharges of 3.0 percent in Canada and 10.0 percent in the United States, held the growth in earnings to a small 3.6 percent increase. Also, the $114.2 million expansion in 1968 resulted in sharply higher property taxes and interest expense in 1969. These factors contributed to a very modest growth in earnings of 4.7 percent per annum during the period. The following table illustrates the trend, since 1965, of some pertinent per share figures.

Per Share Figures	Compound Growth 1965-1969		Years Ending December 31: 1965	1966	1967	1968	1969
Earnings	4.7%	$	0.80	0.89	0.89	0.92	0.96
Dividends		$	0.69	0.72	0.72	0.72	0.72
Pay-Out		%	86	81	81	78	75
Cash Flow	10.8%	$	1.28	1.39	1.54	1.80	1.93
Equity	5.0%	$	3.56	3.72	3.89	4.09	4.33
Return on Equity		%	22.5	23.8	22.9	22.5	22.2
Price Range		$	20-16	18-15	24-17	24-17	24-17
Average Price		$	18	17	21	20	20
P/E Ratio		X	22.5	19.1	23.6	21.7	20.8
Average Yield		%	3.8	4.2	4.2	3.6	3.6

The 4.7 percent per annum increase in net earnings is significantly below the 8.5 percent and 9.4 percent per annum growth in total deliveries and transportation revenue respectively. The trend of various profit ratios and the more important components of the Company's income statements over the past five years are illustrated below:

Operating Data	Compound Growth 1965-1969		Years Ending December 31 1965	1966	1967	1968	1969
($Millions)							
Transportation Revenue	9.4%	$	79.7	87.8	92.9	105.5	114.5
Other Revenue		$	0.6	1.2	1.5	1.0	0.9
Total Revenue		$	80.3	89.0	94.4	106.5	115.4
Operating Profit	8.8%	$	64.0	69.3	71.7	80.8	89.6
Operating Margin		%	79.7	77.8	75.9	75.7	77.5
Depreciation	11.6%	$	10.4	12.3	12.7	13.7	16.1
Property Taxes	19.2%	$	4.1	4.3	4.6	5.8	8.3
Interest	36.8%	$	4.0	4.3	5.6	8.6	13.9
Pre-tax Income	3.1%	$	45.5	48.4	48.7	52.7	51.2
Pre-tax Margin		%	56.7	54.3	51.5	49.4	44.3
Income Taxes		$	25.2	25.9	26.2	29.4	26.8
Tax Rate		%	55.3	53.5	53.7	55.7	52.3
Net Income	4.7%	$	20.3	22.5	22.5	23.3	24.4
Net Margin		%	25.2	25.2	23.8	21.8	21.1
Deliveries (Mln. bbls)	8.5%		203.7	220.8	232.6	261.6	283.2
Barrel Miles (Mlns.)	11.0%		241.3	267.4	289.7	338.0	366.3
Revenue Per 1,000 barrel miles		$	0.33	0.32	0.32	0.32	0.31
Gross Investment in System	15.5%	$	330.7	334.5	405.7	518.8	587.3
Additions to System		$	11.2	4.5	76.7	114.2	70.6
Return on Net Pipeline Investment*		%	22.0	24.3	19.3	16.1	15.0

*Relates pre-tax income plus debt expense to net investment in pipeline system.

The mechanics of a pipeline operation are such that, as throughput approaches the capacity of the line, operating profitability of the system declines. Fuel expenses and increased maintenance costs resulting from pumping liquid hydrocarbons at higher pressures tend to grow at a more rapid rate than revenues derived from additional throughput. As shown in the preceding table, this was the case in the period 1965 to 1969 when IPL's operating margin declined to 75.9 percent and 75.7 percent in fiscal 1967 and 1968 respectively as available capacity was utilized. Margins rose sharply in 1969 as new capacity became available.

Both depreciation and property taxes have grown at a more rapid rate than revenues. The Company provides for depreciation of fixed assets on a straight line basis. The average annual depreciation rate for the System has recorded a declining trend in recent years and is currently 3.0 percent. The sharp increase in property taxes reflects both increased tax rates and capital additions to the System. The most significant single factor affecting IPL's earnings over the past five years has been the rapid escalation of interest expense which has increased at a rate of 36.8 percent per annum during the period. This reflects the Company's substantial expansion program and a generally higher level of interest rates. It is the Company's policy to capitalize interest, during the construction period, on funds borrowed specifically for additions to the pipeline System.

Fiscal 1969

Deliveries of crude oil and natural gas liquids in 1969 totalled 283.2 million barrels; an 8.2 percent increase over fiscal 1968 levels. However, significantly higher property taxes, depreciation charges and interest expense resulted in a small decline in pre-tax income. A lower tax rate enabled the Company to report a modest 4.7 percent increase in net income. Prior years' expansion of the System resulted in a lower throughput to capacity ratio, and therefore a reduction in fuel and power costs which were reflected by an improved operating margin.

Capital expenditures during the year totalled $70.6 million, with the two principal projects being 170 miles of 34-inch loops in Western Canada and a new 290-mile, 30-inch line from Griffith, Indiana, to Sarnia, Ontario. The completion of these projects gave the company a total of three operational lines between Edmonton and Superior and two lines between Superior and Sarnia.

INDUSTRY PROSPECTS

Supply Factors

At the present time, IPL's only sources of crude oil supply are the Provinces of Alberta, Saskatchewan and Manitoba, of which Alberta is by far the largest; accounting for approximately 69 percent of the oil transported through the System. Since IPL commenced operations in 1950, supply factors have never been a major consideration as the Company has always been assured of adequate supply due to the capabilities of producers in the Prairie Provinces to meet any foreseeable growth in demand. Accordingly, the Company's expansion plans have been geared to its assessment of demand factors rather than to any fundamental consideration of the adequacy of supply. However, the rapid growth in demand for Canadian crude by Midwest refiners has altered the picture somewhat, and serious consideration must now be given to supply factors.

Since the massive Prudhoe Bay discovery on Alaska's North Slope nearly two years ago, there has been a noticeable shift in drilling activity to the frontier areas North of 60 degrees latitude. This has had a significant impact on drilling activity in Western Canada. The shift to the northern latitudes and other frontier areas such as the East Coast has resulted in a sharply lower level of activity in the 'proven' oil areas of the Prairie Provinces since the higher costs associated with exploration in the frontier areas has required a substantial redeployment of exploration and development capital. This trend is illustrated in the following table.

Net Cash Expenditures of the Canadian Petroleum Industry
(millions of dollars)

	Compound Growth 1965-1969	1965	1966	1967	1968	1969
Alberta						
Exploration	3.6%	309.7	313.7	344.1	349.0	357.7
Development Drilling	(8.0%)	98.9	88.0	76.9	73.6	68.1
Capital Expenditures[1]	18.3%	57.0	55.5	75.8	85.9	112.1
Other		248.1	280.6	354.0	442.3	482.4
Total		713.7	737.8	850.8	950.8	1,020.3

Western Canada						
Exploration	3.0%	396.7	400.1	447.9	451.4	449.4
Development Drilling	(8.0%)	136.0	120.8	106.4	96.8	95.3
Capital Expenditures[1]	11.4%	88.5	84.8	101.9	108.3	136.4
Other		333.9	391.1	472.8	546.1	597.3
Total		955.1	996.8	1,129.0	1,202.6	1,278.4
Yukon, NWT, and Arctic Islands						
Exploration	35.0%	22.7	24.1	23.1	38.6	75.6
Development Drilling		—	—	—	2.8	5.6
Capital Expenditures[1]		0.2	0.3	0.2	2.8	3.5
Other		0.4	0.7	1.1	1.2	2.0
Total		23.3	25.1	24.4	45.4	86.7

1. Includes expenditures for field equipment and secondary recovery projects.

Source: Canadian Petroleum Association.

During this same period, 1965 and 1969, production of oil in the Prairie Provinces has increased at an annual rate of 8.2 percent, and proved remaining reserves at a rate of 6.5 percent. The reserve life index for the region has declined from 23.2 years in 1965 to 21.8 years at the end of 1969. The trend in overall Canadian reserves is illustrated graphically on page 25.

If demand factors are such that production is increased significantly, and assuming that Western Canada continues to be the primary source of crude oil, it is apparent that expenditures on exploration and drilling in this region must be sharply increased or there could be a reduction in the reserve life index to a level which may be politically 'unacceptable'.

An analysis of the productive capacity of Alberta indicates that funds would also have to be spent on gas plants since, at the present moment, the lack of sufficient gas plant facilities is limiting the potential productive capacity of Alberta oilfields by some 327 thousand barrels a day.

Estimated Alberta Crude Oil Productive Capacity.
(thousands of barrels per day)

	1965	1966	1967	1968	1969
Reserves (millions)	6,077	6,760	7,129	7,632	7,695
Peak MER[1]	n.a.	2,000	2,102	2,443	2,282
Developed Wellhead Capacity[2]	n.a.	1,450	1,505	1,570	1,589
Gas Plant Limitations	n.a.	405	392	375	327
Adjusted for all Field and Processing Limitations	n.a.	909	954	1,068	1,071
Adjusted for Main Pipeline Facility Limitations	n.a.	793	861	890	1,070
Net Effective Capacity[3]	n.a.	753	818	845	957
MER/Reserve Life Index	n.a.	9.3	9.3	8.5	9.2
Wellhead Capacity/Reserve Life Index	n.a.	12.8	13.0	13.3	13.2

1. Maximum Efficient Reservoir Capacity — defined as the maximum production rate of a pool which could be developed economically and without detriment to ultimate recovery, assuming an unlimited market and stable crude oil price structure.
2. Defined as total wellhead capacity which can be made available within a period of one month.
3. After allowance for maintenance shutdowns and periodic operating problems.

Source: Oil and Gas Conservation Board, Province of Alberta.

As shown in the preceding table, production at the full rate of 1969 developed wellhead capacity would exhaust Alberta's proven reserves in as little as 13.2 years. The actual, average production of crude oil in 1969 was 775,000 barrels per day; representing about 49 percent of developed wellhead capacity and 72 percent of the capacity adjusted for field limitations. Average production was at 81 percent of Net Effective Provincial capacity.

Although Canada's proved reserves have, historically, increased at a faster rate than domestic consumption and the country has achieved a point of virtual self-sufficiency in terms of its ability to produce enough oil to satisfy its own requirements, a heavy concentration of exploration and development effort in the frontier areas would seriously retard the growth of proved reserves in the Prairie Provinces. This could raise questions as to the desirability of allowing unlimited export of Canadian crude to United States markets — especially if there is no **significant** discovery in the frontier areas in the near future.

Trends in Canadian production and consumption and the sharp increase in the country's self-sufficiency since 1960 are shown below.

Canadian Crude Oil Supply and Demand
(thousands of barrels per day)

	Refinery Receipts		Total	Domestic	Net	Percentage
	Canada	Imported	Consumption	Production	Deficit	Self-Sufficient
1960	413	346	759	519	240	68.4
1961	441	362	803	614	189	76.5
1962	470	373	843	688	155	81.6
1963	510	402	912	715	197	78.4
1964	540	394	934	755	179	80.8
1965	571	395	966	801	165	82.9
1966	603	435	1,038	878	160	84.6
1967	615	447	1,062	962	100	90.6
1968	646	489	1,135	1,039	96	91.6
1969e	658	520	1,178	1,116	62	94.7

Note: These figures comprise crude oil and condensate, less amounts returned to formation.
Source: Dominion Bureau of Statistics.

A major oil discovery in the frontier areas would, of course, considerably enhance the supply picture. However, the problems associated with finding and developing a significant oil field in the frontier areas are enormous and, while such a field will probably be found and developed, the cost of such a project will continue to be reflected in reduced exploration and development expenditures in Western Canada.

There is little doubt that the Canadian Arctic, with its huge volumes of sedimentary rock and its favourable structures, is a promising area for oil and gas exploration, and both Panarctic and Imperial Oil have confirmed that the area does contain significant quantities of hydrocarbons. However, as mentioned previously, costs are huge. The average cost of drilling a well in the Arctic is about $2-3 million compared with $200,000 in Northern Alberta and, although land costs are low, the large acreage necessary can involve substantial expenditures. With the extraordinary high level of expenditures involved it will be necessary to find a very large oil field if it is going to be economically viable.

It has been suggested that a Middle East type field will be required and that such a field would probably cost at least $1-2 billion just to develop, and about $25-50 million a year to operate. Oil from such a field would necessitate a large diameter pipeline (probably 48-inch) from the Arctic to the general Chicago area. This could mean an entirely new, direct line, or a line to link with IPL's System at Edmonton, and an expansion of that System to Chicago. The construction of pipeline facilities could cost about $2 billion and would enable Arctic oil to be delivered to the Chicago market at a competitive total cost of about $3.25 per barrel.

The enormous capital requirements for developing Canada's frontier areas would largely have to come from sources outside Canada, and will exert some financial pressure on the oil companies engaged in exploration and development. These companies will have to decide whether to direct their funds toward the lower cost development of the Western oil fields or to the frontier areas where both the risk and potential payoff are significantly greater. Obviously, if there is a significant and immediate growth in the demand for Western Canadian crude then there will be a movement of funds into this area. However, such a trend would, of course, delay the development of the frontier areas, probably beyond 1974, at which time Prudhoe Bay oil could be reaching United States markets. The recent hike in the price of crude oil, which will boost producers' wellhead revenue by about $150 million, will help to fund exploration and development, but represents only a small fraction of the total that will have to be invested if Canada is going to maintain and improve its reserve position.

In addition to the basic questions concerning where IPL will get its oil (i.e., Western Canada or the frontier areas), and the problems created by present gas plant limitations, there are, also, important questions concerning the direction of Canada's future domestic oil policy.

Some concern has been expressed over the security of supply for Eastern Canada which presently imports its oil from overseas (mainly Venezuela). It has been argued that Western crude be made available to Eastern Canada, thereby ensuring adequate supply should there be a disruption in the flow of foreign crude into this market. In the event that such a crisis should occur, it has been estimated that the supply of oil available to Eastern Canada would, in the two years it would take to get Western oil into these markets, decline by as much as 30 percent and have a serious effect on industry and commerce. Although Montreal cannot be supplied with Western crude on a purely competitive basis at the present time, the above would appear to be a fairly strong political argument for a pipeline into Montreal. Such a line would, however, have a significant impact on the availability of crude for United States Midwest markets and raise numerous questions concerning the future of present agreements between the two countries. In addition, a significant discovery in the East Coast offshore area would probably ensure security of supply for Eastern Canada on an economical basis and remove the need for such a pipeline.

In summary, therefore, it would appear that the supply of oil available for shipment through IPL's System to both Canadian and Midwest markets will be limited, over the short term, by the lack of adequate gas plant capacity. Over the longer term, the attractiveness of the frontier areas as a possible new source of oil and the substantial funds required to develop this region could retard exploration and development in Western Canada and impair its reserve position.

Demand Factors

Since IPL delivers oil primarily to the United States, Ontario, and Western Canada, the demand factors which will influence future throughput can be discussed in terms of each of these markets.

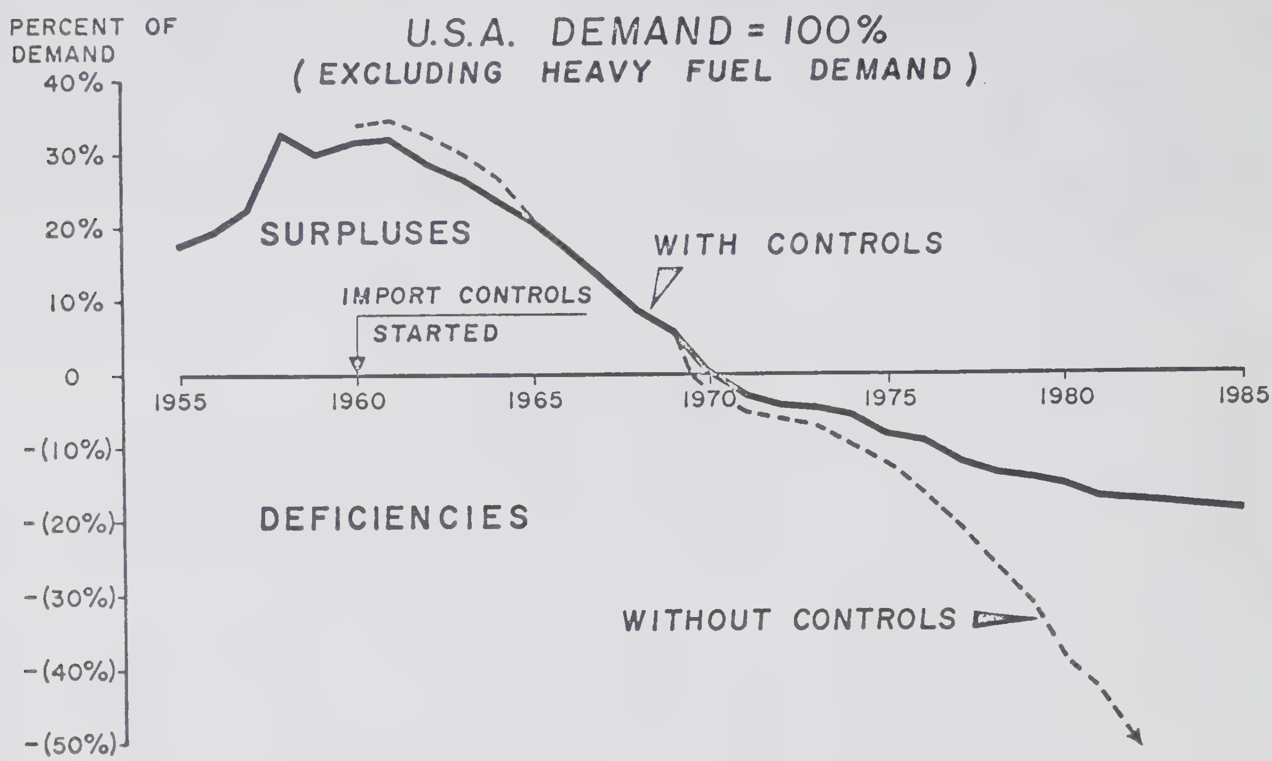
United States

Prior to World War II, the United States dominated the world petroleum market both as a producer and consumer, producing more than 60 percent of total world production. However, since the end of World War II production has been unable to keep up with the rapid growth in domestic demand and the country's self-sufficiency has steadily declined.

Currently, the United States demand for petroleum is approximately 15 million barrels per day and is increasing at a rate of about 4.7 percent per annum, with a good deal of this increase being attributable to the growth of markets in the Midwest. Production, on the other hand, is presently just a little over 11 million barrels per day, and growing at a much lower rate. The following chart, presented to the 1969

United States Senate Committee hearings by a major oil company, projects a growing oil deficiency both with and without import controls.

United States Oil Surpluses and Deficiencies



The lower 48 states are, with the exception of Texas and Louisana, currently producing at full capacity. Texas, which holds one-half the country's remaining reserves and accounts for about one-third of total production, has available on reasonably short notice excess capacity of about 250 thousand barrels per day. Louisiana has an additional 500 thousand barrels per day excess capacity. Thus, total excess capacity in the United States at the present time is less than 5 percent of domestic consumption. In addition, the United States proved reserve position has exhibited a declining trend since 1960 (see chart on page 26). Faced with a continuation of this trend, some industry specialists are forecasting a peak in domestic crude oil production in the mid-1970s and a gradual decline thereafter. It is apparent, therefore, that the United States will either have to discover and develop some major new fields or rely to a greater extent on crude oil imports.

In the first instance, the possibility of the United States finding and developing new oil reserves in sufficient quantities to stem its declining reserve position appears to be small. It should be remembered that a discovery of the magnitude of Prudhoe Bay only represents about one year of United States consumption. Furthermore, the country has reached a point where the vast majority of its prime exploratory acreage has been developed and is currently producing.

With little likelihood of a substantial increase in domestic source of supply, the United States will undoubtedly have to rely more on foreign oil imports. This raises the question of security of supply. The Venezuelan oil industry, a major source of oil, has reached its peak, and its reserve/production ratio has shown a steady decline from its level of about 18 years in 1960 to about 11 years at present. In addition, the major oil producing countries in the Middle East and other parts of the world are very susceptible to political changes which could disrupt their export of oil to the United States. These uncertainties emphasize the importance of the United States establishing a dependable source of back-up supply, and Canada, with its stable political climate, relatively healthy reserve position, and close proximity, would

appear to be such a source. We therefore feel that the present import restrictions will gradually disappear and that the United States will, in effect, allow unlimited import of Canadian crude. As suggested in our discussion of supply factors, future restrictions on the volume of crude shipments into the Midwest are more likely to result from limitations of Canadian supply, productive capacity, and concern over the availability of supply to meet domestic requirements, particularly in Eastern Canada.

Ontario and Western Canada

Demand for crude by Ontario and Western Canada has, over the past three years, grown at annual rates of about 3.6 percent and 2.8 percent respectively. Continued healthy economic and industrial growth and increased refinery crude capacity should result in future growth at about the same rates.

INTERPROVINCIAL PIPE LINE COMPANY
OUTLOOK

Fiscal 1970

For the year ended December 31, 1970, IPL will probably report earnings of $1.15 per share, which will represent a 20 percent increase over the previous year's figure of $0.96 per share.

In arriving at our estimate of earnings for fiscal 1970 we have assumed a 17.0 percent increase in throughput. Most of this increase will be due to a substantial growth in the volume of oil shipped to the United States (see page 21). Based on nominations, IPL's shipments to Districts I-IV during 1970 probably averaged 415,000 barrels per day; a 33 percent increase over 1969 levels. We have assumed no increase in revenues per barrel, which should remain at $0.40, but we have projected an increase in operating margin from 77.5 percent to 79.0 percent, reflecting improved utilization of existing capacity. Our estimates for the various components of the Company's fiscal 1970 income statement are shown on page 20.

Longer Term

Our review of industry prospects indicates a fair amount of uncertainty, particularly with respect to supply factors. It is evident, therefore, that any projection of IPL's earnings are subject to the accuracy of the assumptions made concerning future industry trends. However, in assessing IPL's future **we have assumed what we believe to be optimum but realistic conditions for the Company.**

Deliveries

We have assumed an orderly development of the industry during the 1971-75 period with a strong growth in demand for Canadian crude by the Uited States, predicated on the gradual demise of current import restrictions.

Based on nominations for January and February by United States refiners and the recent announcement by President Nixon regarding the import on Canadian crude, we have estimated shipments to Districts I–IV in 1971 of 525,000 barrels per day; a 110,000 barrel-per-day increase over our estimate for 1970.

Forecast nominations by United States refiners in IPL's market during January and February are in the order of 600,000 barrels per day. The United States Government has set the import ceiling for Canadian crude into Districts I—IV at 450,000 barrels per day, but is also allowing the use of overseas tickets by United States refiners wishing to obtain additional oil from Canada. Thus, while it would appear that shipments to Districts I—IV **could** perhaps increase by some 200,000 barrels per day, we feel our estimate is realistic.

In 1972, we forecast another healthy increase in shipments to Districts I—IV of 125,000 barrels per day, based on a further relaxation of United States import restrictions. Our terminal figure for 1975 is calculated by taking the upper range of the National Energy Board's estimate of exports for that year, adjusting it for estimated shipments to the West Coast and the Rocky Mountain States, and adding an arbitrary 100,000 barrels per day to allow for a possible under-estimation of United States demand.

In Ontario and Western Canada we have assumed an average compound growth in deliveries to these markets of 4.0 percent and 3.5 percent per annum respectively, based on historic trends. In total, our projection shows a growth in IPL's deliveries, from 1969 to 1975, of 11.7 percent per annum. This compares with a growth of 8.5 percent per annum from 1965 to 1969.

Projected Deliveries
(barrels per day)

	Compound Growth 1969-1975	1969	1970	1971	1972	1973	1974	1975
Western Canada	3.5	111,504	115,407	119,446	123,627	127,954	132,432	132,067
Ontario	4.0	351,270	380,000	410,000	420,000	430,000	440,000	450,000
United States	19.8	313,197	415,000	525,000	650,000	740,000	810,000	920,000
Total	11.7	775,971	910,407	1,054,446	1,193,627	1,297,954	1,382,432	1,507,067

In making the above projections it should be noted that we have assumed the following industry conditions:

(a) Canadian production comes only from the Western Canada Sedimentary Basin, and there is no further significant development of the Athabasca tar sands nor any supply from the Canadian frontier areas during the period.

(b) Substantial funds are outlayed to further develop the Western oilfields, both in terms of reducing the present large deficiency in gas plant capacity and to prove-up and develop additional reserves. It is assumed that the resulting reserve position and productive capacity will remove any possibility of the Canadian or Provincial governments imposing export restrictions.

(c) There is no change in the pattern of oil supply as a result of Alaska North Slope production entering the United States West Coast markets and displacing Canadian crude.

(d) A pipeline to Montreal from Toronto is not constructed and Eastern Canadian markets continue to import foreign crude. Also, any significant discovery in the East Coast offshore area does not result in a dislocation of markets presently served by IPL's System.

While the above appear to be reasonable assumptions, we would caution against an over-simplication of the problems and uncertainties associated with the attainment of such an industry environment. The present restriction on the productive capacity of Western oilfields, imposed by gas plant limitations, is serious, and will be a factor limiting IPL's throughput if **immediate** steps are not taken to improve the situation before demand outstrips the ability to supply. It will require significant capital outlays and approximately two years to build and bring to an operational state the required gas plant facilities. As suggested in our discussion of the supply factors affecting the industry's prospects, current exploration activity North of 60 degrees latitude is taking a substantial portion of funds available for exploration and development and, although the recent hike in the price of crude will help somewhat, funds will have to be re-directed to the Prairie Provinces. This could retard the exploration and development of the northern regions or, alternatively, the oil companies currently active in the north may be reluctant to direct funds toward further development of the Western fields in view of the prospect of a much higher ultimate return on their investment in the northern regions. While it is evident that development of the Western Sedimentary Basin will be continued, the question is whether such development will be sufficient to ensure a continuation of a politically acceptable productive capacity and reserve position if, in the meantime, there are no significant discoveries in the frontier areas, despite the heavy expenditure on the exploration and development of these regions. These and other imponderables, such as possible dislocations of markets by Alaskan crude or significant discoveries on the East Coast continental shelf, could materially change the industry environment and have a significant impact on IPL's throughput. Notwithstanding these uncertainties, we feel that the assumptions we have made in arriving at our projection of future deliveries are, at the present time, the most logical interpretation of the course industry developments will take over the next few years.

Capacity and Investment in System

IPL's capacity at the end of 1970 was 1,104,000 barrels per day. This is based on the capacity at Cromer, Manitoba, which is the System's bottleneck. The Company's 1971 construction program is estimated to require expenditures of approximately \$58.3 million, and will consist mainly of additional pumping facilities. At the end of the year, the System's capacity ex Cromer will be 1,308,000 barrels per day. Given our estimate of deliveries in 1971 totalling 1,054,000 barrels per day, the System will have excess capacity of about 250,000 barrels per day and an indicated export capacity, after allowing for shipments (ex Cromer) to Manitoba and Ontario, of about 800,000 barrels per day.

Our projections of deliveries, through to 1975, indicate that they will exceed present planned capacity in 1974. Thus, IPL will have to increase its capacity in late 1972 or 1973 in order to accommodate the projected volume of throughput in 1974. This will mean that the Company will have to commence construction of a fourth line. The size and extent of the initial construction program is a matter for conjecture and, at this time, the capital expenditures involved are difficult to estimate. However, it is probable that with a continuing rapid growth in United States demand and the possibility of North Slope oil, at some time in the future, being routed through IPL's System, the Company will opt to undertake a sizeable expansion program. This may be in the form of a 48-inch pipeline, although a smaller diameter line is a possibility. Such a line would be built in stages, in the form of 'loops' to the existing line. While IPL usually tries to keep its expansion programs in line with year-ahead anticipated throughput, this is not always feasible, as in the case of a new line, and initial expenditures often bear little relationship to projected throughput in years immediately following.

In our projections of the capital expenditures necessary to meet the anticipated increase in IPL's throughput, we have assumed a modest \$10.0 million investment in 1972, mainly for new equipment,

with larger outlays of $100.0 million, $30.0 million, and $50.0 million in the years 1973, 1974, and 1975 respectively. This assumes commencement of a fourth line in 1973.

It should be noted that if IPL's throughput increases at a more rapid rate than we have projected, then the capital outlays to be made by the Company will be required sooner. Also, our assumption of the initial expenditures associated with a new line could be understated by a significant amount, depending upon the size and extent of initial construction. As a general guideline we have assumed an increase in capacity of two barrels per one dollar invested and calculated the Company's capital requirements accordingly.

Projected Investment in Pipeline System
(thousands of dollars)

	1969	1970	1971	1972	1973	1974	1975
Pipeline System	587,340	605,340	663,640	673,640	773,640	803,640	853,640
Average Investment	553,070	596,340	634,340	668,640	723,640	788,640	828,640
Increase in Average Investment	90,842	43,270	38,000	34,300	55,000	65,000	40,000
Increase in Investment	70,595	18,000	58,300	10,000	100,000	30,000	50,000
Depreciation (at 3% of Average Investment)	16,070	17,890	19,030	20,059	21,709	23,659	24,859
Property Taxes (at approx. 1.4% of Gross Investment)	8,338	8,500	9,300	9,400	10,800	11,300	12,000

Obviously, the extent and timing of IPL's expansion program will have a significant bearing on the Company's earning power, since earnings will be affected not only by higher interest expense resulting from heavier borrowing, but also by high charges for depreciation and property taxes. As shown in the preceding table, we have calculated depreciation at the rate of 3 percent of average investment, and property taxes at approximately 1.4 percent of gross investment in the System. Both of these rates correspond to current charges, and we have assumed no change during the period.

In addition to the factors discussed above, IPL's investment in pipeline facilities could be influenced by two other factors; the possibility of a line being constructed to Montreal and, indirectly, through participation in a line from the North which could result from research currently being done by Mackenzie Valley Pipeline Research Limited, a company in which IPL shares ownership. As stated earlier, our projections do not give effect to either of these possibilities.

Debt Expense

In order to support our projection of capital outlays necessary to adequately increase its capacity, we estimate that IPL will probably have to borrow an additional $160.0 million between now and 1975. This figure is somewhat misleading since $50.0 million represents funds borrowed in anticipation of increased throughput in 1976. Nevertheless, the total amount is significant and contributes to a sharp increase in interest expense during the period.

We have based our estimate of borrowings each year on our projection of required capital expenditures and a cumulative assessment of the Company's net cash flow (see page 20) and working capital position. The following tables set out our projection of the Company's working capital position, annual total debt, and interest expense.

Projected Working Capital Position
(thousands of dollars)

	1969	1970	1971	1972	1973	1974	1975
Surplus Funds	(55,349)	(21,848)	(64,156)	5,697	(85,142)	(9,545)	(12,039)
Increase in Debt	56,531	75,000	–	10,000	100,000	–	50,000
	1,182	53,152	(64,156)	15,697	14,858	(9,545)	37,961
Miscellaneous Adjustments	2,450	–	–	–	–	–	–
	3,632	53,152	(64,156)	15,697	14,858	(9,545)	37,961
Working Capital at beginning of year	(14,122)	(10,490)	42,662	(21,494)	(5,797)	9,061	(484)
Working Capital at end of year	(10,490)	42,662	(21,494)	(5,797)	9,061	(484)	37,477

Projected Debt & Interest Expense
(thousands of dollars)

	1969	1970	1971	1972	1973	1974	1975
Debt at Beginning of year	223,470	265,184	305,158	265,269	254,361	330,660	310,320
Less: Repayments	14,819	35,026	39,889	20,908	23,698	20,343	6,102
	208,653	230,158	265,269	244,361	230,663	310,320	304,218
Plus: Increase in debt	56,531	75,000	–	10,000	100,000	–	50,000
Debt at Year-End	265,184	305,158	265,269	254,361	330,663	310,320	354,218
Interest Expense	13,898	18,829	20,759	19,523	22,028	28,553	25,667

In computing interest expense we have assumed all new debt at an arbitrary rate of 8 percent. Also, in keeping with the Company's policy of capitalizing interest during the construction period on funds borrowed specifically for additions to the pipeline transportation System, we have expensed one-half the interest on funds borrowed in a given year and deferred the balance until the following year.

Operating Profitability

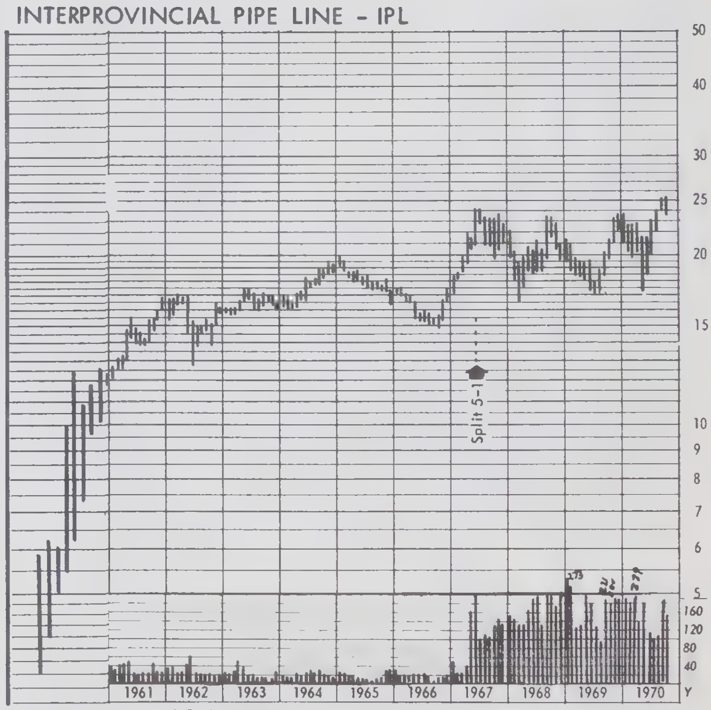
As mentioned previously, the mechanics of a pipeline operation are such that, as throughput approaches the capacity of the line, operating profitability declines. Fuel expenses and heavier maintenance costs resulting from pumping liquid hydrocarbons at higher pressures tend to increase at a more rapid rate than the incremental increase in throughput. As additional line capacity is added, the converse holds true and operating efficiency improves. Therefore, in our projection of IPL's operating profitability, we have assumed a peak in operating margin in 1971 of 80.0 percent, and a gradual decline over the next two years as throughput approaches capacity of the line. Beyond 1973, we have projected an improvement in the operating margin as new capacity is added. We do not anticipate any change in revenues per barrel during the period. Higher rates of interest on the Company's borrowings would seem to preclude any rate reductions in the foreseeable future.

The foregoing analysis of IPL's outlook in terms of deliveries, capacity and investment in the pipeline System, debt expense and operating profitability, and our projection of the Company's earnings

through to 1975, is summarized on pages 20 and 21. Our projection shows IPL's earnings increasing sharply over the next two years; from $1.15 in fiscal 1970 to $1.42 in 1971 and $1.66 in 1972. From 1972 to 1974 we project little improvement in earnings as the Company begins expansion of its System. By 1975, on the basis of the assumptions we have made, earnings could reach a level of about $2.08 per share.

In summary, it would appear the IPL's earnings, **given a favourable industry environment**, could record a healthy growth of about 12.5 percent per annum from 1970 to 1975. However, this projection is predicated on what we believe to be optimum operating and industry conditions and is subject to a number of uncertainties which could change the picture considerably. These extenuating factors are discussed in the body of this report but, perhaps, the two most important and immediate areas of concern are the present limitations on the productive capacity of the Western oilfields and the very real possibility that the Company's expansion program will occur at an earlier date and involve heavier capital outlays than we have anticipated.

MARKET COMMENT



COURTESY OF GRAPHOSCOPE

Over the past ten years, the stock has risen from a low of about $12 in 1961 to its recent high of £28 1/8. During this period, dividends have increased from $0.58 per share to $0.80 per share. If the stock had been purchased at its low in 1961 and held through the period, the average annual return on investment, including dividend income, would have been approximately 7.6 percent.

Technically, the stock has strong support levels at $20 and $21 and $17 to $18. The stock has recently broken out of a long-term rectangle which would indicate a move to an intermediate target level of $30.

The stock is very marketable, normally trading about 100,000 to 200,000 shares a month. Imperial Oil Limited owns approximately 33 percent of the outstanding common stock, two other oil companies own about 9 percent, and the remaining 58 percent are held by approximately 22,000 shareholders. The common shares and warrants are actively traded on the Toronto and Montreal stock exchanges.

PRICE EVALUATION

Based on our projection of fiscal 1975 earnings of $2.08 per share, we have calculated a present value for the stock.

Projected 1975 E.P.S.	$2.08
Assumed P/E Multiple	20X
Theoretical M.V.	$41.60
Cumulative Dividends	6.49
Total	$48.09
Discounted at 10%	$32.85
Discounted at 11%	$31.67
Discounted at 12%	$30.56

The above is a purely theoretical approach to the valuation of IPL's stock on the basis of our expectations of future earnings and dividends. The multiple we have attached to fiscal 1975 earnings is based on the multiples historically accorded to the stock. Dividends are calculated on the basis of a 75 percent pay-out. Theoretically, the stock, if purchased at $31.67, would give a rate of return of 11 percent. Investors requiring a higher rate of return would obviously have to buy the stock at lower levels.

INVESTMENT ADVICE

At the recent price of $28, the stock is trading at a multiple of 19.7 times our estimate of fiscal 1971 earnings of $1.42 per share and 13.0 times projected fiscal 1975 earnings of $2.08 per share. In view of the number of extenuating factors which could adversely affect our projections, these earnings multiples adequately discount the Company's near-term prospects. Although the Company has excellent sponsorship and is highly regarded as a quality investment, the shares have advanced about 60 percent since mid-1970 and now appear to be approaching a fully-priced condition. While some moderate further appreciation seems possible, it would be prudent, in our opinion, to reduce holdings and take profits.

INTERPROVINCIAL PIPE LINE COMPANY

PROJECTED INCOME STATEMENT

(thousands of dollars)

	Actual	Estimated			Projected		
	1969	1970	1971	1972	1973	1974	1975
Revenues	114,465	132,920	153,949	174,270	189,501	201,835	220,032
Other Income	994	1,200	1,200	1,200	1,200	1,200	1,200
	115,459	134,120	155,149	175,470	190,701	203,035	221,232
Operating Profit [1]	89,565	105,954	124,119	136,867	144,933	156,337	172,561
Operating Margin	77.5%	79.0%	80.0%	78.0%	76.0%	77.0%	78.0%
Depreciation	**16,070**	**17,890**	**19,030**	**20,059**	**21,709**	**23,659**	**24,859**
Property Taxes	8,338	8,500	9,300	9,400	10,800	11,300	12,000
Interest	**13,898**	**18,829**	**20,759**	**19,523**	**22,028**	**28,553**	**25,667**
Pre-Tax Income	51,259	60,735	75,030	87,885	90,396	92,825	110,035
Income Taxes	26,833	31,582	39,016	45,700	47,006	48,269	57,218
Tax Rate	52%	52%	52%	52%	52%	52%	52%
Net Income	24,426	29,153	36,014	42,185	43,390	44,556	52,817
Shares o/s	25.4	25.4	25.4	25.4	25.4	25.4	25.4
Earnings Per Share	**$0.96**	**$1.15**	**$1.42**	**$1.66**	**$1.71**	**$1.75**	**$2.08**
Gross Cash Flow[2]	48,379	50,043	61,044	68,244	71,099	74,215	83,676
Less: Dividends[3]	18,316	21,865	27,011	31,639	32,543	33,417	39,613
Debt Repayment	14,817	35,026[4]	39,889	20,908	23,698	20,343	6,102
Net Cash Flow	15,246	(3,848)	(5,856)	15,697	14,858	20,455	37,961
Pipeline Additions	**70,595**	**18,000**	**58,300**	**10,000**	**100,000**	**30,000**	**50,000**
Surplus Funds	(55,349)	(21,848)	(64,156)	5,697	(85,142)	(9,545)	12,039

1. Operating profit refers to profit before depreciation, interest expense, taxes other than income taxes, and income taxes.
2. Net income plus depreciation plus deferred taxes (deferred taxes of $6.0 million are assumed after 1969).
3. Future dividends are on the basis of a 75.0 percent pay-out.
4. Includes repayment of $20.0 million bank loans.

INTERPROVINCIAL PIPE LINE COMPANY
HISTORIC AND PROJECTED OPERATING RECORD

	Growth Rates 1960-69	Growth Rates 1965-69	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	Growth Rates 1969-75	1970	1971	1972	1973	1974	1975
Deliveries (b/d)																			
Western Canada	3.8%	3.5%	93,540	88,375	89,629	88,176	90,313	106,118	106,817	107,050	106,832	111,504	3.5%	115,407	119,446	123,627	127,954	132,432	132,067
Ontario	6.9	3.3	193,039	220,200	235,897	267,903	285,556	308,226	320,145	317,968	338,624	351,270	4.0	380,000	410,000	420,000	430,000	440,000	450,000
United States	19.5	21.5	62,891	91,241	106,959	114,503	128,098	143,701	177,982	212,271	271,271	313,197	19.8	415,000	525,000	650,000	740,000	810,000	920,000
Total (b/d)	**9.3**	**8.5**	**349,470**	**399,816**	**432,485**	**470,582**	**503,967**	**558,045**	**604,944**	**637,290**	**716,727**	**775,971**	**11.7**	**910,407**	**1,054,446**	**1,193,627**	**1,297,954**	**1,382,432**	**1,507,067**
Annual Deliveries (mbls)	9.3	8.5	127,557	145,933	157,857	171,762	183,948	203,686	220,805	232,611	261,605	283,229	11.7	332,299	384,873	435,674	473,753	504,588	555,079
Barrel Miles	11.5	10.8	137,483	170,468	186,562	207,724	221,691	241,264	267,354	289,691	337,978	366,287							
Average Miles Barrel			1,078	1,168	1,182	1,209	1,205	1,184	1,211	1,245	1,292	1,293							
Revenues (000)	8.8	9.5	$ 53,380	$ 58,420	$ 65,710	$ 69,636	$ 74,668	$ 79,718	$ 87,787	$ 92,893	$105,532	$114,465	11.7	$132,920	$153,949	$174,270	$189,501	$201,835	$220,032
Deliveries (mbls)	9.3	8.5	127,557	145,933	157,857	171,762	183,948	203,686	220,805	232,611	261,605	283,229	11.7	332,299	384,873	435,674	473,753	504,588	550,079
Revenues/Barrel			$0.42	$0.40	$0.42	$0.41	$0.41	$0.39	$0.40	$0.40	$0.40	$0.40		$0.40	$0.40	$0.40	$0.40	$0.40	$0.40
Operating Profit (000)	7.9	8.7	$ 45,122	$ 49,123	$ 54,992	$ 56,671	$ 60,412	$ 64,029	$ 69,319	$ 71,682	$ 80,785	$ 89,565	11.6	$105,954	$124,119	$136,867	$144,933	$156,337	$172,561
Operating Margin[1]			82.2%	82.9%	82.6%	80.9%	80.5%	79.7%	77.8%	75.9%	75.7%	77.5%		79.0%	80.0%	78.0%	76.0%	77.0%	78.0%
Net Profit (000)	5.3	6.0	$ 15,480	$ 16,096	$ 17,679	$ 17,780	$ 19,202	$ 20,337	$ 22,523	$ 22,525	$ 23,334	$ 24,426	13.7	$ 29,153	$ 36,014	$ 42,185	$ 43,390	$ 44,556	$ 52,817
Net Margin			29.0%	27.6%	26.9%	25.5%	25.7%	25.5%	25.7%	24.2%	22.1%	21.3%		21.9%	23.3%	24.2%	22.8%	22.0%	24.0%
Earnings/Share			**$0.61**	**$0.63**	**$0.70**	**$0.70**	**$0.75**	**$0.80**	**$0.89**	**$0.89**	**$0.92**	**$0.96**		**$1.15**	**$1.42**	**$1.66**	**$1.71**	**$1.75**	**$2.08**
Average Investment (000)	8.2	14.2	$272,093	$275,971	$283,424	$301,068	$316,347	$325,350	$332,592	$370,082	$462,228	$553,070	7.0	$596,340	$634,340	$668,640	$723,640	$788,640	$828,640
Deliveries (mbls)	9.3	8.5	127,557	145,993	157,857	171,762	183,948	203,686	220,805	232,611	261,605	283,229	11.7	332,299	384,873	435,674	473,753	504,588	550,079
Deliveries/$ Invested			0.47	0.53	0.56	0.57	0.58	0.63	0.66	0.63	0.57	0.51		0.56	0.61	0.65	0.66	0.64	0.66
Increase in Average Investment (000)			$ 3,646	$ 3,878	$ 7,453	$ 17,644	$ 15,279	$ 9,003	$ 7,242	$ 37,490	$ 92,146	$ 90,842		$ 43,270	$ 38,000	$ 34,300	$ 55,000	$ 65,000	$ 40,000
Increase in Deliveries (000)			4,635	18,376	11,924	13,905	12,186	19,738	17,119	11,806	28,994	21,624		49,070	52,574	50,801	38,079	30,835	45,491
Incremental Deliveries/$ Invested			1.27	4.74	1.60	0.79	0.80	2.19	2.36	0.31	0.31	0.24		1.13	1.38	1.48	0.69	0.47	1.13

[1] Expressed as a percentage of total revenues

INTERPROVINCIAL PIPE LINE COMPANY

BALANCE SHEET DATA

(thousands of dollars)

Capitalization

	December 31, 1968	%	December 31, 1969	%	(Unaudited) September 30, 1970*	%
Deferred Taxes	34,574	9.5	42,457	10.2	47,098	10.4
Long-Term Debt	223,470	61.7	265,184	63.5	289,119	63.9
Common Equity	104,000	28.8	110,112	26.3	116,489	25.7
	362,044	100.0	417,753	100.0	452,706	100.0

Shares Outstanding

	December 31, 1968	December 31, 1969	September 30, 1970*
	25,438,835 Common	25,438,960 Common	25,440,460 Common

As at September 30, 1970, there were warrants outstanding to purchase 872,450 shares at $17 per share. In addition, there are outstanding options on 143,000 shares. Imperial Oil Limited owns 8,400,000 shares (approximately 33 percent) of the outstanding capital stock.

Working Capital

	December 31, 1968		December 31, 1969		September 30, 1970*	
Current Assets						
Cash & Short-Term Investment	5,490		8,089		49,670	
Accounts Receivable	9,759		10,997		8,184	
Inventories	2,086		2,185		2,411	
Other	669	18,136	565	21,836	1,759	62,024
Current Liabilities						
Accounts Payable	7,886		5,895		3,490	
Interest Accrued	3,387		3,614		5,130	
Income and Other Taxes	11,108		7,791		11,427	
Debt due within one year	9,877	32,258	15,026	32,326	17,549	37,596
Working Capital		(14,122)		(10,490)		24,428
Current Ratio		0.56		0.68		1.65
Cash as percent of current liabilities		17		25		132

* Adjusted to give effect to the recent issue of $60 million, 9 3/8 percent Sinking Fund Debentures.

INTERPROVINCIAL PIPE LINE COMPANY

SOURCE AND APPLICATION OF FUNDS

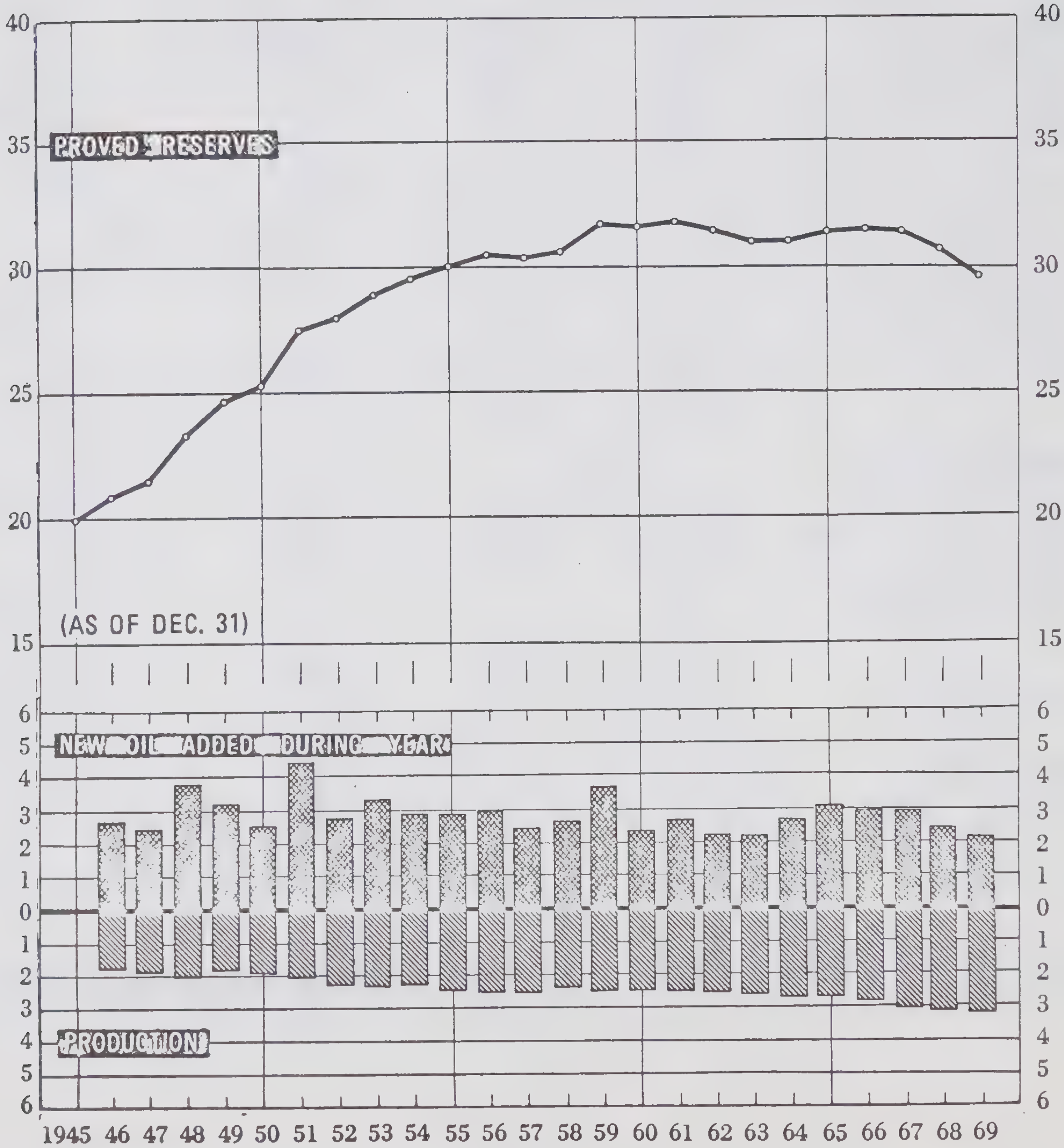
(thousands of dollars)

	Years Ended December 31		Nine Months Ended September 30	
	1968	1969	1969	1970*
Source of Funds				
Earnings	23,334	24,426	18,039	21,615
Depreciation	13,677	16,070	11,935	13,025
Deferred Income Taxes	4,706	7,883	5,771	4,641
Deferred Tax Credit, net**	3,904	608	(613)	(747)
Other	243	150	110	114
Total Funds from Operations	45,864	49,137	35,242	38,648
Increase in Long-Term Debt	80,755	–	–	–
Bank Loans	11,200	56,531	40,422	15,000
Capital Stock Issued	5	2	2	26
Income Tax Recoverable	1,765	1,189	–	–
Other	207	501	342	365
	139,796	107,360	76,008	114,039
Application of Funds				
Increase in Fixed Assets	114,189	70,595	58,919	11,923
Decrease in Long-Term Debt	9,676	14,817	6,527	31,064
Dividends	18,316	18,316	13,737	15,264
Cost of Issuing Debt	1,460	–	–	870
Decrease in Bank Loans	–	–	–	20,000
	143,641	103,728	79,183	79,121
Increase (Decrease) in Working Capital	(3,845)	3,632	(3,175)	34,918
Working Capital at beginning of period	(10,277)	(14,122)	(14,122)	(10,490)
Working Capital at end of period	(14,122)	(10,490)	(17,297)	24,428

* Adjusted to give effect to the recent issue of $60 million, 9 3/8 percent Sinking Fund Debentures.

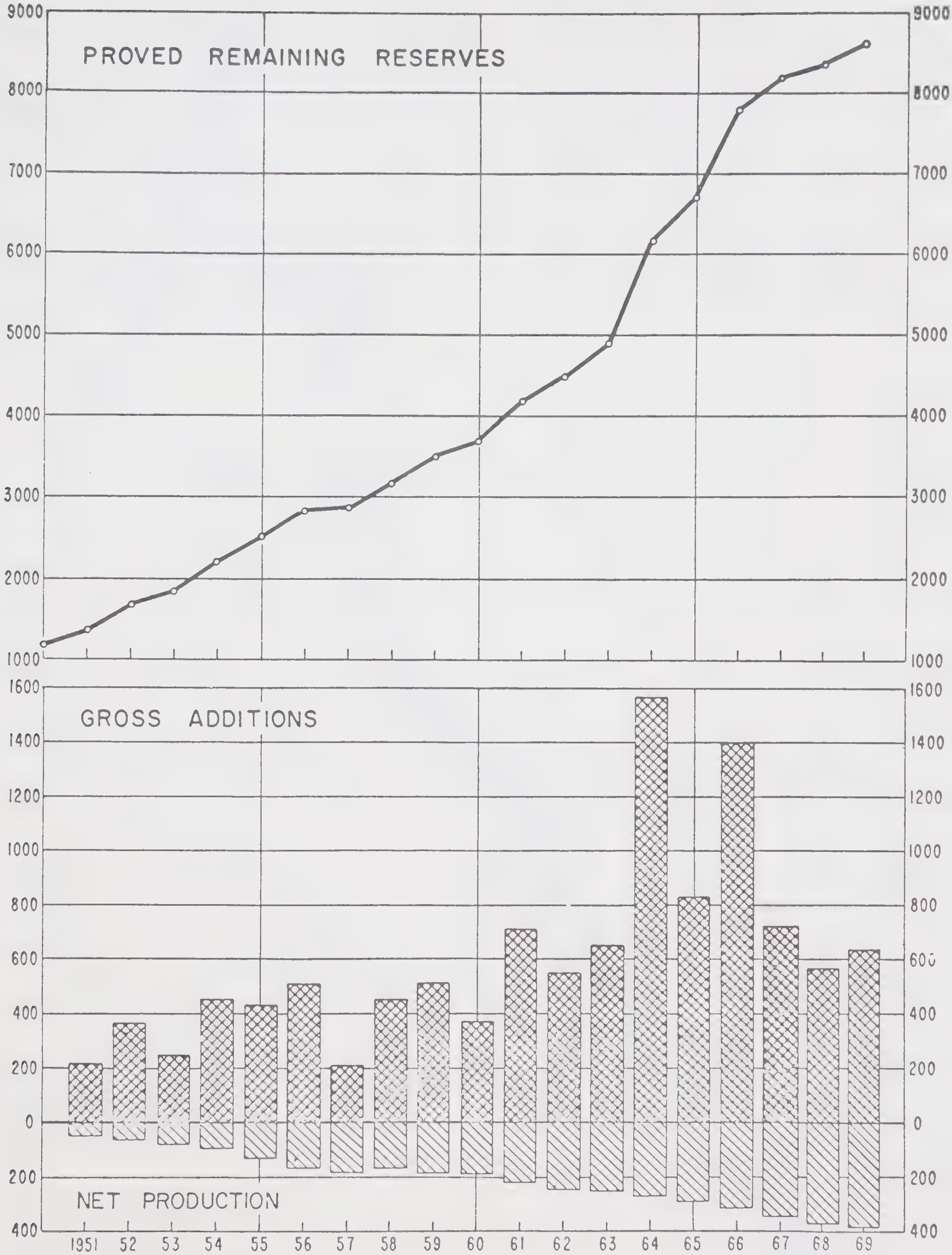
** The Company has deferred the investment tax credit of its United States subsidiary companies. During 1968 and 1969, the applicable investment tax credit was more than the maximum amount allowed in the current year and therefore was claimed against taxes paid in prior years. This has resulted in a recovery of taxes previously paid of $1,765,000 in 1969 and $1,189,000 in 1970.

UNITED STATES CRUDE OIL RESERVES
(Billions of Barrels)



Source: American Petroleum Institute

CANADIAN CRUDE OIL RESERVES
(Millions of Barrels)

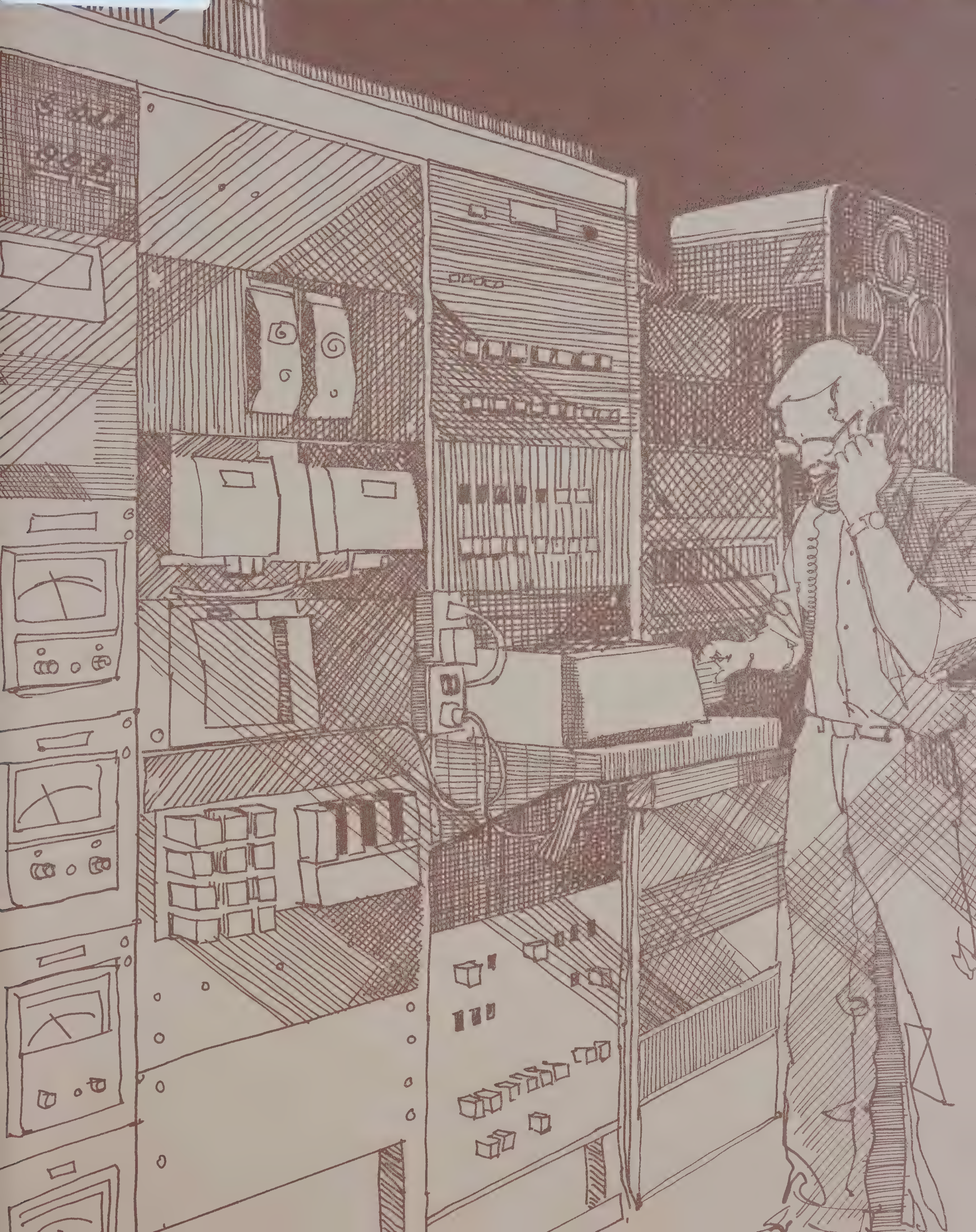


Source: CPA Reserves Committee

INTERPROVINCIAL PIPE LINE COMPANY
PIPELINE SYSTEM

Source: 1969 Annual Report

INTERPROVINCIAL PIPE LINE COMPANY ANNUAL



corporate information

EXECUTIVE OFFICE—7 King Street East, Toronto, Ontario

HEAD OFFICE—10015-103 Avenue, Edmonton, Alberta

STOCK TRANSFER AGENTS

The Royal Trust Company, Toronto, Montreal, Halifax, Winnipeg, Regina, Edmonton, Vancouver

Chemical Bank, New York

STOCK REGISTRARS

Montreal Trust Company, Toronto, Montreal, Halifax, Winnipeg, Regina, Edmonton, Vancouver

Bank of Montreal Trust Company, New York

DIVIDEND DISBURSING AGENT

The Royal Trust Company—P.O. Box 7500, Postal Station 'A', Toronto, Ontario

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Annual General Meeting—2:30 p.m. April 12, 1972, Confederation Room,

Royal York Hotel, 100 Front Street West, Toronto, Ontario

(Incorporated by Special Act of the Parliament of Canada, April 30, 1949)

directors

JOHN F. BOOKOUT
President & Director, Shell Canada Limited, Toronto

JERRY A. COGAN
Senior Vice-President & Director, Imperial Oil Limited, Toronto

JOHN W. HAMILTON
Senior Vice-President & Director, Imperial Oil Limited, Toronto

JAMES G. LIVINGSTONE
Senior Vice-President & Director, Imperial Oil Limited, Toronto

J. WILLIS MORGAN
Vice-President, Gulf Oil Canada Limited, Toronto

RALPH D. PARKER
Consultant, former Senior Vice-President & Director,
The International Nickel Company of Canada, Limited, Toronto

W. HAROLD REA
Chairman of the Board, Great Canadian Oil Sands Limited, Toronto

ROBERT H. REID
Vice-Chairman of the Board, London Life Insurance Company, London, Ontario

DAVID G. WALDON
President, Interprovincial Pipe Line Company, Toronto

WILLIAM P. WILDER
President & Director, Wood Gundy Limited, Toronto

GORDON D. deS. WOTHERSPOON
Executive Vice-President & Director, Eaton's of Canada Limited, Toronto

officers

DAVID G. WALDON, President

JOHN W. HAMILTON, Vice-President

ROBERT K. HEULE, Vice-President & General Manager

JOHN BLIGHT, Secretary-Treasurer

E. GORDON SHEASBY, General Counsel & Assistant Secretary

FREDERICK B. NEWTON, Assistant Treasurer

highlights

FINANCIAL	1971	1970	Percentage Increase
Transportation revenue	$144,393,000	$133,707,000	8.0%
Other income - - -	$ 2,871,000	$ 1,643,000	
Expenses, excluding taxes - - - - -	$ 67,394,000	$ 63,679,000	5.8%
Income and other taxes	$ 44,230,000	$ 42,174,000	4.9%
Earnings - - - -	$ 35,640,000	$ 29,497,000	20.8%
per share - - -	$1.40	$1.16	
Dividends - - - -	$ 21,892,000	$ 20,352,000	7.6%
per share - - -	$0.86	$0.80	
Capital expenditures -	$ 44,783,000	$ 17,795,000	

STATISTICAL			
Deliveries (barrels per day)			
Average for year - -	977,350	900,919	8.5%
highest month -	1,071,613	1,017,591	
lowest month - -	844,940	748,053	
Barrel miles (millions) -	488,862	444,318	10.0%
Number of employees—			
December 31 - -	677	641	5.6%
Investment in plant, per employee - - -	$ 954,000	$ 940,000	

directors' report to shareholders

1971 was another very active year for Interprovincial. More oil than ever before was transported—refined products were handled for the first time—and a major expansion program, involving the installation of sixty-nine pumping units plus some looping in Ontario, was undertaken and largely completed, well within the original cost estimate. Earnings also reached a new high of $1.40 per share.

The expansion program fully powered the present three-line system between Edmonton and Superior, Wisconsin and increased the capacity of the system as far as Sarnia by 200,000 barrels per day. The capacity of the system ex Cromer, Manitoba is now 1,308,000 b/d. Cromer is the last major receiving point on the pipe line and is therefore a key location.

With the quantity of Canadian crude oil that could be imported into the United States east of the Rocky Mountains in 1971 established at 450,000 b/d, exclusive of natural gas liquids, prior to the beginning of the year, and later increased to 475,000 b/d, deliveries of Canadian crude and natural gas liquids in the United States were more uniform than in 1970. They averaged 467,603 b/d as compared to 401,384 b/d in 1970. Deliveries to the Ontario refineries were also higher than in 1970 resulting in an 8% increase in overall throughput to 977,350 b/d. Late in 1971 the United States established a quota of 540,000 b/d for 1972, again exclusive of natural gas liquids.

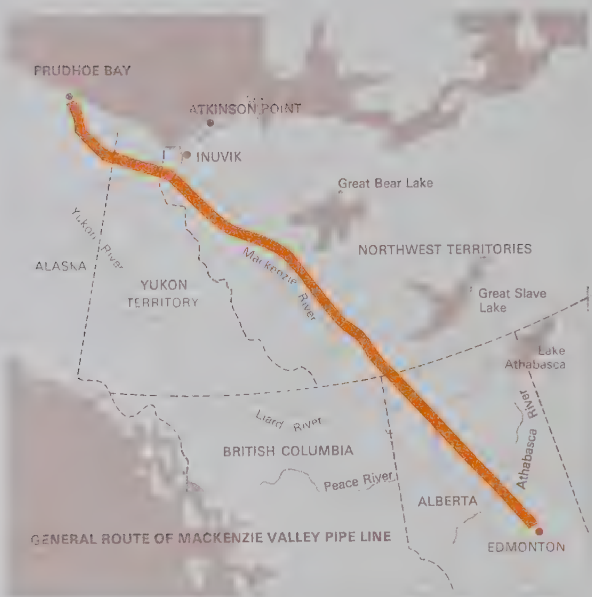
Concurrent with the new Gulf Oil Canada Limited refinery in Edmonton coming on stream, transportation of refined products to Milden and Regina, Saskatchewan commenced in July. Some problems have arisen but for the most part the movement has been satisfactory.

To be in a position to meet the potential demand for Canadian crude in 1973 and keep pace with the expansion taking place in the producing industry in Western Canada, the capacity of the pipe line system should be further increased in 1972 and between Edmonton and Superior this can only be accomplished by installing more pipe. Consequently, considerable thought has been devoted to developing a suitable expansion program for 1972.

The program finally decided on, subject to the approval of the National Energy Board as regards the additional facilities in Canada, is a combination of 48-inch looping and horsepower that will increase the capacity of the system by 127,000 b/d to 1,435,000 b/d ex Cromer. A total of 124 miles of 48-inch pipe will be installed in the form of 22 loops on the existing 34-inch line.

The installation of this 48-inch pipe will mark the commencement of a fourth line from Edmonton to Superior—a distance of some 1,100 miles. The program is very flexible, however, and the line will only be completed in stages as the supply and demand for crude dictates.

The company continues as an active participant in Mackenzie Valley Pipe Line Research Limited. Close to $5 million has now been expended by the sixteen partners and it is hoped that a definitive cost estimate for a 48-inch line from the North Slope of Alaska to Edmonton will



be completed shortly. Further research will be conducted in 1972 which will include investigation of an all-Canadian line from the Mackenzie Delta to Edmonton.

FINANCIAL REVIEW

The Consolidated Financial Statements and the Notes, appearing on pages 12 through 19, include the accounts of Interprovincial Pipe Line Company and its subsidiaries, all of which are wholly owned. These are Lakehead Pipe Line Company, Inc., which owns and operates the portion of the pipe line system in the United States, and its subsidiary, Pipe Line Service Company, Inc., which owns Lakehead's aircraft and radio communication system. Interprovincial also has a Canadian subsidiary, Interprovincial Pipe Line Patrol Company Limited which is inactive.

Income and Expenses

Throughput in terms of barrel miles was 10% greater in 1971 than in 1970 while transportation revenue at $144.4 million was 8% higher. Other income was substantially higher than the previous year as a result of the investment of the proceeds from the sale of debentures until the funds were required for construction.

Operating and administrative expenses of $31.3 million were 14% higher than last year. As expected fuel and power costs increased $2 million to $13.2 million to pump the additional throughput. Salaries and related benefits increased by $1 million to $9.1 million, due to increased staff and salary and wage rates.

Property and other taxes were less than in the previous year. In 1971 the State of Minnesota transferred a portion of the property tax burden to income and sales taxes resulting in a reduction of $386,000 in property taxes. Also an additional charge of $574,000 was made to other taxes in 1970 due to the redetermination by the State of Michigan of prior years' franchise taxes. This long outstanding dispute is fully explained in Note 8 of Notes to Financial Statements.

Income, property and other taxes imposed by all levels of government amounted to $44.2 million which is equivalent to $1.74 per share and is 24% more than shareholders' earnings.

Earnings and Dividends

Earnings for the year were $35.6 million which is an increase of $6.1 million or 21% over 1970. Earnings per share were $1.40 compared with $1.16 in the previous year.

Dividends paid totalled $21.9 million and represented 61% of earnings compared with $20.4 million and 69% in 1970.

The quarterly dividend rate was increased from 20¢ to 22¢ per share effective with the June 1, 1971 dividend and beginning with the March 1, 1972 dividend, the quarterly rate was increased to 23¢ per share.

Tariffs

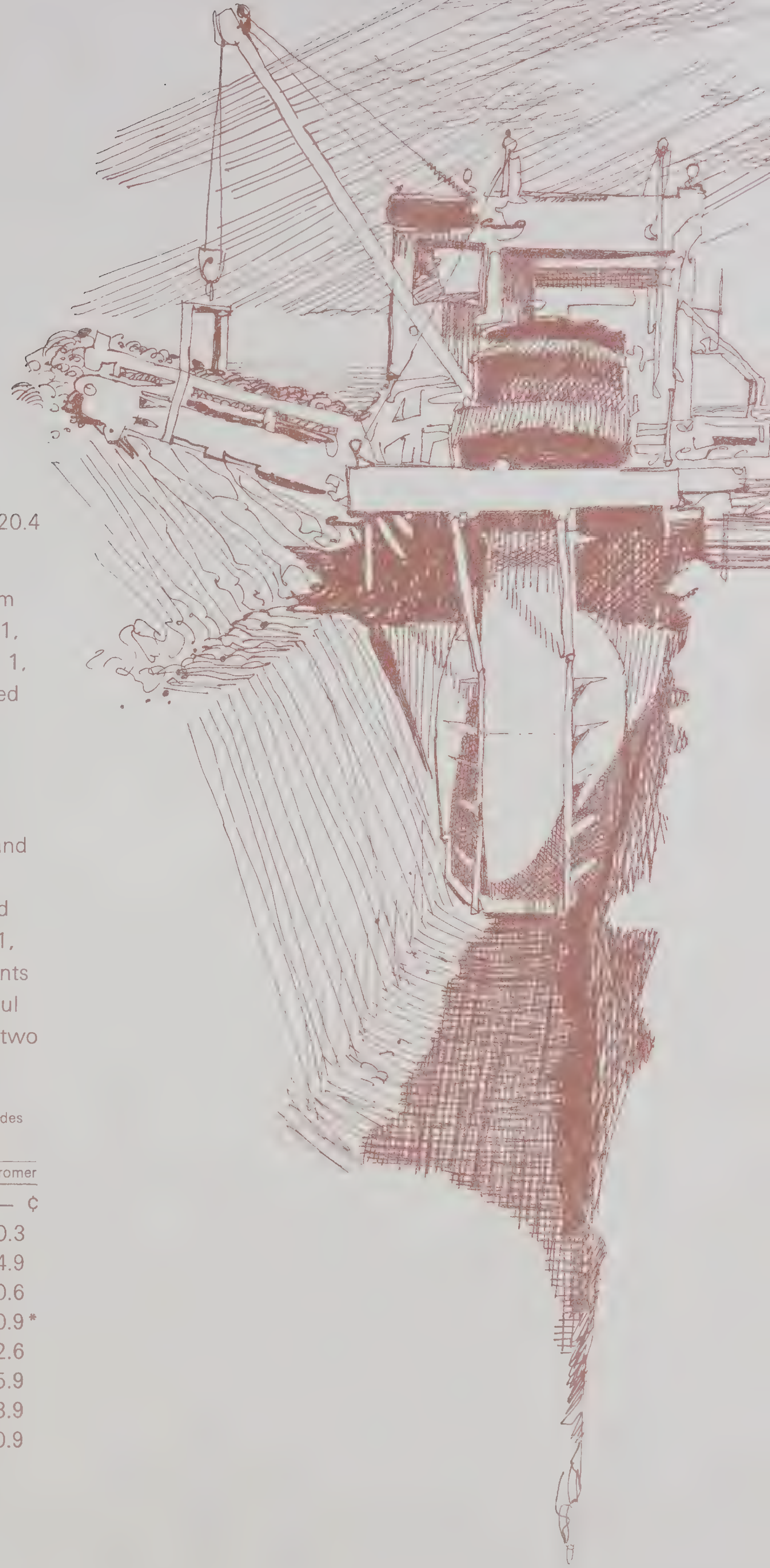
Interprovincial and Lakehead are engaged exclusively in the transportation of crude oil and other liquid hydrocarbons by pipe line at established tariffs. Tariffs remained unchanged throughout the year. However, effective April 1, 1972, short haul tariffs were reduced by amounts ranging from 0.6¢ to 2¢ per barrel and long haul rates by 1¢ per barrel. The new tariffs from the two main receiving points to the principal delivery points are tabulated below:

	Rates for light crudes Cents per barrel From	
To	Edmonton	Cromer
Regina	18.7¢	— ¢
Gretna	27.8	10.3
Clearbrook	31.0	14.9
Superior	34.9	20.6
Detroit/Toledo	52.0*	40.9*
Chicago	44.0	32.6
Sarnia	47.0	35.9
Toronto area	50.0	38.9
Buffalo	52.0	40.9

**Joint rates with connecting carriers.*

Sale of Redwater Line

Following approval of the National Energy Board of Canada, the Redwater line was sold to

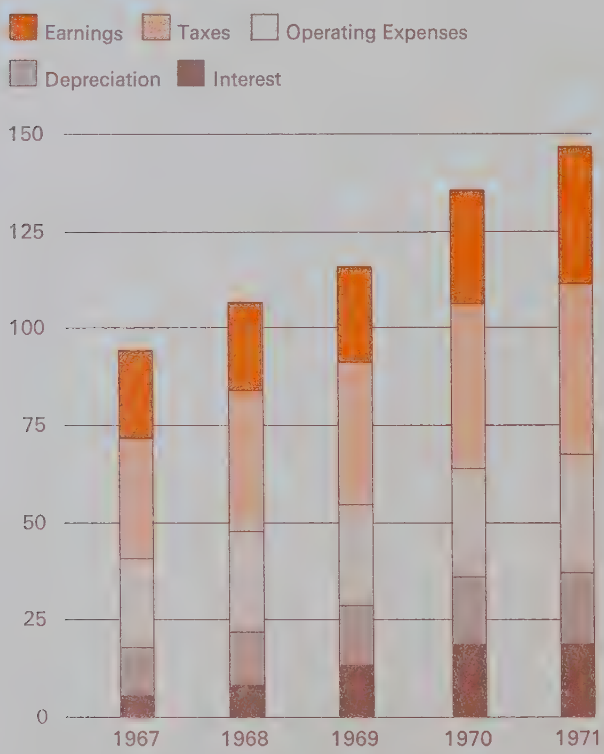


The Imperial Pipe Line Company, Limited for $1.5 million for settlement in 1972.

The system consists of 30 miles of 16-inch pipe between Redwater and Edmonton, a pumping station and three tanks at Redwater. The turnover took place on March 1, 1972 when facilities were available to pump directly from the treating plant through to Edmonton. The Redwater system was constructed in 1950 and had a depreciated value at the time of sale of approximately $900,000.

How Interprovincial's Revenue Was Used

in millions of dollars



OPERATIONS

The volume of oil received into the system increased 9% to 982,000 b/d representing 63% of all crude oil and natural gas liquids produced in Canada during 1971. Following a pattern which has been developing for several years almost all of the growth was from the oilfields in Alberta.

Receipts
(thousands of barrels per day)

	1971	1970
Alberta - - - - - - -	743.4	659.4
Saskatchewan - - - - -	217.0	224.9
Manitoba - - - - - -	15.6	16.4
Ontario - - - - - - -	2.8	0.8
United States - - - - -	3.2	2.6
	982.0	904.1

Deliveries averaged 977,350 b/d, an increase of 8% over 1970. Most of the growth was in deliveries to the United States which increased 16%.

Deliveries
(thousands of barrels per day)

	1971	1970
Canada		
Western Canada - - -	116.2	116.4
Ontario - - - - - -	390.8	380.5
	507.0	496.9
United States		
Minnesota-Wisconsin - -	159.2	142.7
Illinois-Indiana - - - -	89.3	49.9
Michigan-Ohio - - - -	120.1	121.8
New York-Pennsylvania -	101.8	89.6
	470.4	404.0
	977.4	900.9

In July the company began to transport refined products from Edmonton to Milden and Regina, Saskatchewan. Also in September deliveries commenced to a new pipe line from Buffalo to Warren, Pennsylvania.

CONSTRUCTION

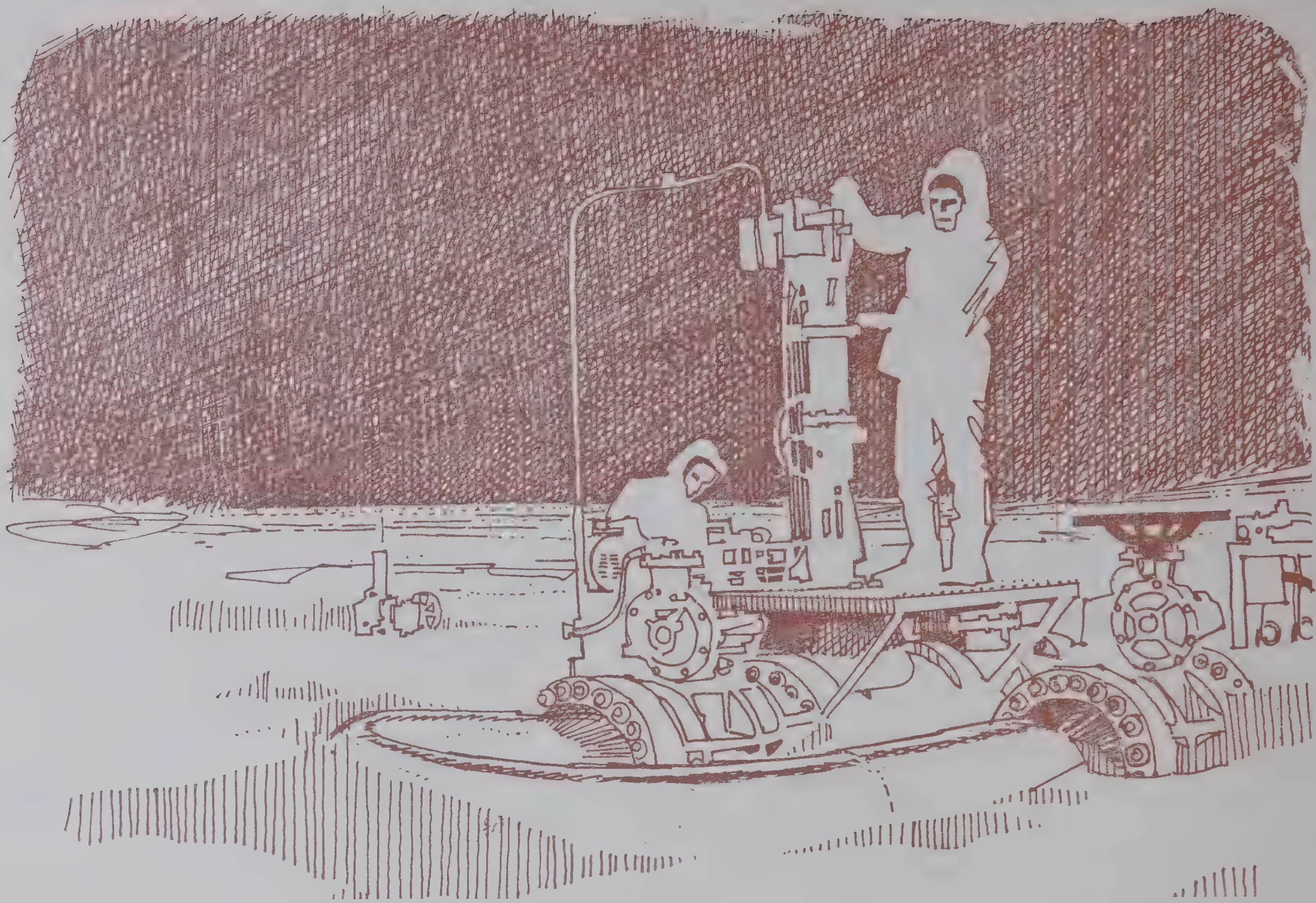
1971 Review

The planned construction program for 1971 was originally estimated to cost $59 million. However, it is now expected the actual cost will be $44.8 million. The large difference is attributed to: the use of smaller diameter station piping and valves than originally contemplated; reduced material and labour costs; lower than estimated equipment costs due to volume purchases; and the prompt delivery of material and equipment minimized disruption of contractors' schedules.

The expansion required to meet the anticipated market growth in 1972 and maintain a reasonable level of reserve capacity was accomplished by fully powering the system between Edmonton and Superior and adding horsepower between Superior and Chicago. In Ontario additional capacity was provided by line looping and additional horsepower.

In the section of the line between Edmonton and Superior 44 electric units totalling 187,500 horsepower were added at 19 existing stations and nine new station locations. On the line between Superior and Sarnia via Chicago 22 electric units totalling 41,250 horsepower were added at four existing stations and eight new station locations. As a result of these additions capacity of the line between Edmonton and Sarnia was increased by 200,000 b/d.

The 20-inch looping program in Ontario consisted of: 35 miles on the Sarnia—Port Credit section which, together with previous looping programs, completed 111 miles or 71% of the second line; and between Westover and



Buffalo, New York, 46 miles were installed as the first stage (50%) in looping the existing 12-inch line. In addition three electric units totalling 6,000 horsepower were installed. This resulted in an increase in capacity of 40,000 b/d.

Eight additional tanks were erected during the year—two of 290,000 barrels at Edmonton, two of 217,000 barrels at both Superior and Griffith and two of 150,000 barrels at Sarnia.

All phases of the 1971 construction program were completed by the end of February 1972.

1972 Forecast

The expansion program planned for 1972, together with the amount required to complete 1971 projects, is expected to result in capital expenditures of $77 million.

The major expenditure will be for 124 miles of 48-inch pipe in the section of the system between Edmonton and Superior (80 miles in Canada and 44 miles in Minnesota) in the form of 22 loops on the existing 34-inch line. In addition 23—5,000 horsepower electric units will be installed at existing stations. These additions will increase capacity of the system by 127,000 b/d to 1,435,000 b/d ex Cromer by the end of 1972.

In the section between Superior and Sarnia via Chicago 15,000 horsepower will be added at three locations. Also the capacity of the 12-inch line from Westover to Buffalo will be increased by 12,000 b/d to 145,000 b/d by the addition of a further 18 miles of 20-inch loops.

Eight receiving and breakout tanks will be erected, two 390,000 barrel tanks at Edmonton, two 80,000 barrel tanks at Clearbrook, Minnesota, two 390,000 barrel tanks at Superior and two 217,000 barrel tanks at Griffith, Indiana.

The facilities being added in Canada are subject to the approval of the National Energy Board.

Capacity

The annual average physical capacities of the various sections of the system that will be available for 1972 and 1973 operations are as follows:

Line Section	Thousands of Barrels Per Day 1972	1973
Edmonton-Regina	1,251	1,381
Regina-Cromer	1,236	1,357
Cromer-Gretna	1,308	1,435
Gretna-Superior	1,308	1,435
Superior-Sarnia via Straits of Mackinac	538	538
Superior-Chicago	621	655
Chicago-Sarnia	330	375
Sarnia-Port Credit	355	355
Westover-Buffalo	133	145

GENERAL

The directors gratefully acknowledge the dedication of all employees whose fine performance in 1971 contributed significantly to the growth and success of the company.

On behalf of the Board of Directors

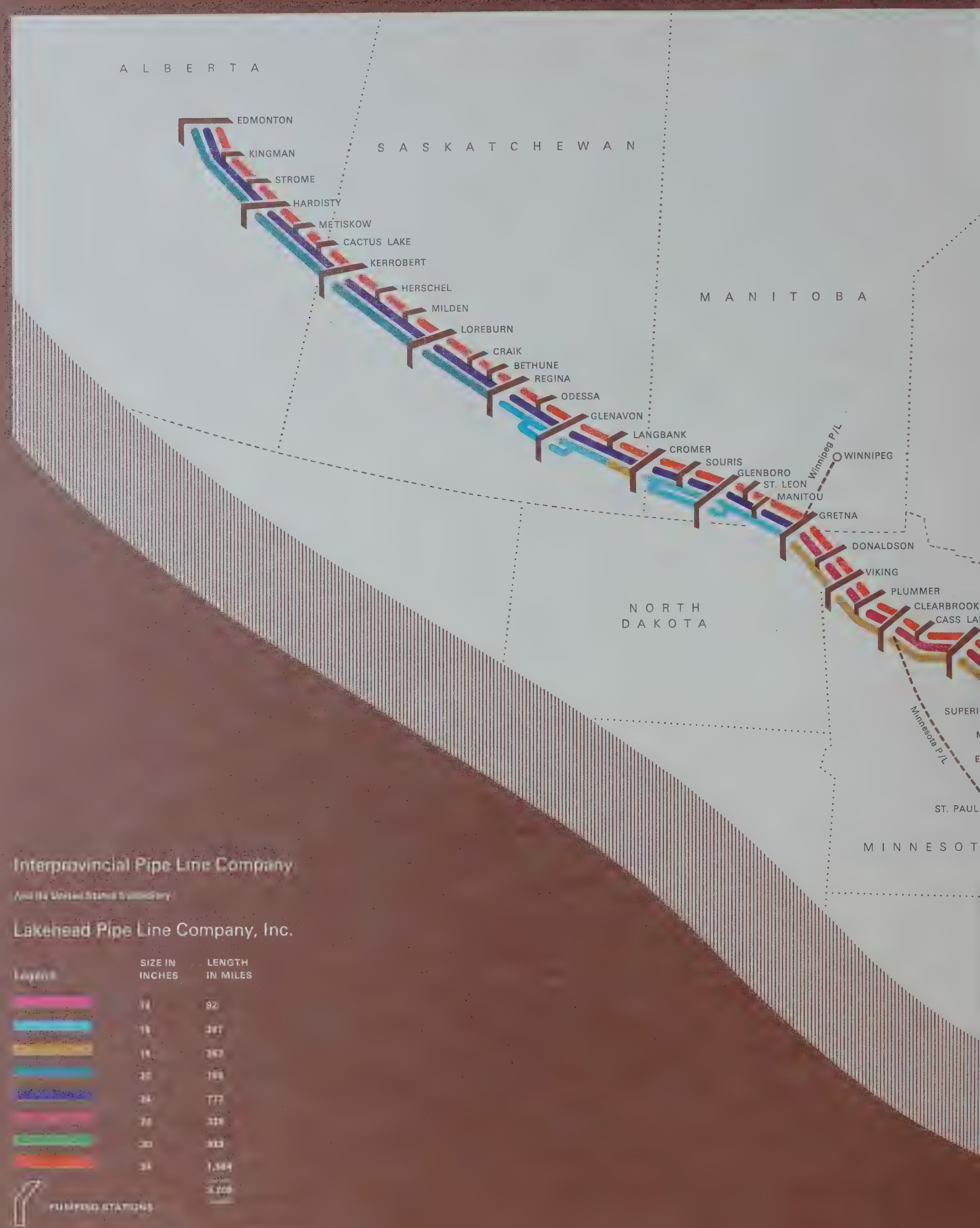
President

the pipe line transportation system

(as at December 31, 1971*)

	Canada	United States	Total
Miles of right-of-way	1,007	1,740	2,747
Miles of main line pipe	2,815	2,391	5,206
Number of pumping stations	28	37	65
Installed horsepower—diesel	42,720	96,335	139,055
—electric	345,900	234,250	580,150
Total	388,620	330,585	719,205
Line fill, in barrels (provided by shippers)	8,800,000	10,400,000	19,200,000
Tankage capacity, in barrels	6,941,000	5,009,000	11,950,000
Separate streams transported			34

*Excludes data relating to Redwater—Edmonton section of system sold March 1972


ALBERTA
SASKATCHEWAN
MANITOBA
NORTH DAKOTA
MINNESOT
EDMONTON
KINGMAN
STROME
HARDISTY
METISKOW
CACTUS LAKE
KERROBERT
HERSCHEL
MILDEN
LOREBURN
CRAIK
BETHUNE
REGINA
ODESSA
GLENAVON
LANGBANK
CROMER
SOURIS
GLENBORO
ST. LEON
MANITOU
Winnipeg P/L
WINNIPEG
GRETNA
DONALDSON
VIKING
PLUMMER
CLEARBROOK
CASS LA
SUPERI
Minnesota P/L
ST. PAUL
Interprovincial Pipe Line Company
Lakehead Pipe Line Company, Inc.
SIZE IN INCHES
LENGTH IN MILES
92


ONTARIO
QUEBEC
VER
LOODWOOD
INO
SAXON
RAPID RIVER
GOULD CITY
MACKINAW
GOGEBIC
IRON RIVER
MANISTIQUE
INDIAN RIVER
ER
ELDON
LEWISTON
OWEN
VESPER
WEST BRANCH
WISCONSIN
ADAMS
BAY CITY
MICHIGAN
NORTH BRANCH
RIO
CAMBRIDGE
WALWORTH
DUNDEE
CHICAGO
NILES
MARSHALL
DETROIT
Buckeye P/L
TOLEDO
Tecumseh P/L
CYGNET
LOCKPORT
GRIFFITH
KEYSER
SARNIA
BRYANSTON
WOLVERTON
WESTOVER
PORT CREDIT
SMITHVILLE
TONAWANDA
WILLIAMSVILLE
BUFFALO
NEW YORK
WARREN
PENNSYLVANIA
ILLINOIS
INDIANA
OHIO

consolidated statement of earnings

	Year ended December 31 1971	Year ended December 31 1970
Income:		
Transportation revenue	$144,393,000	$133,707,000
Other income	2,871,000	1,643,000
	147,264,000	135,350,000
Expenses:		
Operating and administrative	31,251,000	27,492,000
Property and other taxes	8,814,000	9,643,000
Provision for depreciation (Note 2)	18,115,000	17,519,000
Interest on long term debt	18,890,000	18,810,000
Foreign exchange (Note 1)	(862,000)	(142,000)
	76,208,000	73,322,000
Earnings before income taxes	71,056,000	62,028,000
Provision for income taxes:		
Current	27,666,000	26,890,000
Deferred (Notes 4 & 8)	8,065,000	6,351,000
Deferred investment tax credit, net (Note 5)	(315,000)	(710,000)
	35,416,000	32,531,000
Earnings for the year	$ 35,640,000	$ 29,497,000
Earnings per share (Note 6)	$1.40	$1.16

consolidated statement of retained earnings

	Year ended December 31 1971	Year ended December 31 1970
Balance at beginning of year	$ 73,742,000	$ 64,597,000
Earnings for the year	35,640,000	29,497,000
	109,382,000	94,094,000
Dividends paid—(per share: $0.86-1971; $0.80-1970)	21,892,000	20,352,000
Balance at end of year	$ 87,490,000	$ 73,742,000

The accompanying notes are part of the financial statements.

consolidated statement of source and application of funds

	Year ended December 31	
Funds were provided from the following:	1971	1970
Earnings for the year	$ 35,640,000	$ 29,497,000
Add—Charges to earnings not requiring working capital:		
Depreciation (Note 2)	18,115,000	17,519,000
Deferred income taxes (Notes 4 & 8)	8,065,000	6,351,000
Deferred investment tax credit, net (Note 5)	(315,000)	(710,000)
Other	214,000	168,000
Funds provided from operations	61,719,000	52,825,000
Long term debt (Note 3)		
Bank loan—		
Interprovincial Pipe Line Company	—	15,000,000
Debentures issued by Interprovincial Pipe Line Company	—	60,000,000
Capital stock issued (Note 6)	572,000	65,000
Other transactions	268,000	910,000
	62,559,000	128,800,000
Funds were expended for the following:		
Dividends paid	21,892,000	20,352,000
Additions to pipe line transportation system	44,783,000	17,795,000
Long term debt retired or included in current liabilities	28,550,000	47,355,000
Cost of issuing long term debt	—	960,000
	95,225,000	86,462,000
Change in working capital	(32,666,000)	42,338,000
Working capital (deficit) at beginning of year	31,848,000	(10,490,000)
Working capital (deficit) at end of year	$ (818,000)	$ 31,848,000

The accompanying notes are part of the financial statements.

consolidated balance sheet

ASSETS

	December 31 1971	December 31 1970
Current Assets:		
Cash	$ 1,821,000	$ 2,403,000
Term deposits with Canadian chartered banks	10,593,000	38,645,000
Short term investments, at cost which is equivalent to market	14,245,000	5,223,000
Accounts receivable—		
Transportation charges	11,377,000	10,084,000
Other	908,000	780,000
Inventory of materials and supplies, at cost	3,064,000	2,370,000
Prepaid expenses	437,000	559,000
	42,445,000	60,064,000
Other Assets and Deferred Charges:		
Unamortized discount and expense on long term debt	3,118,000	3,332,000
Other	87,000	113,000
	3,205,000	3,445,000
Pipe Line Transportation System, at cost (Note 2)	646,172,000	602,312,000
Less—Accumulated depreciation	184,464,000	167,029,000
	461,708,000	435,283,000
	$507,358,000	$498,792,000

The accompanying notes are part of the financial statements.

LIABILITIES

	December 31 1971	December 31 1970
Current Liabilities:		
Accounts payable	$ 7,046,000	$ 5,216,000
Interest accrued	3,300,000	3,470,000
Income and other taxes	9,315,000	12,484,000
Current portion of long term debt (Note 3)	23,602,000	7,046,000
	43,263,000	28,216,000
Long Term Debt (Note 3)	264,279,000	292,829,000
Deferred Income Taxes (Notes 4 & 8)	56,873,000	48,808,000
Deferred Investment Tax Credit (Note 5)	9,301,000	9,617,000
Shareholders' Equity:		
Capital stock (Note 6)—		
Authorized—$100,000,000 divided into 100,000,000 shares, par value $1 each		
Issued—1971—25,475,585 shares	25,475,000	
—1970—25,442,785 shares		25,443,000
Contributed surplus—premium on shares (Note 6)	20,677,000	20,137,000
Retained earnings	87,490,000	73,742,000
	133,642,000	119,322,000
	$507,358,000	$498,792,000

Approved on Behalf of the Board:

D. G. WALDON, *Director*

G. D. WOTHERSPOON, *Director*

notes to consolidated financial statements

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Interprovincial Pipe Line Company and its wholly owned subsidiaries. These are Interprovincial Pipe Line Patrol Company Limited in Canada and Lakehead Pipe Line Company, Inc., and its subsidiary, Pipe Line Service Company, Inc. in the United States.

United States dollar amounts have been translated into Canadian dollars on the following bases:

Current assets and liabilities—at the rate of exchange December 31;

Other assets and liabilities—at historical rates of exchange except for accumulated depreciation which is translated on the basis of equivalent Canadian dollar cost of the related fixed assets;

Income and expenses—at monthly rates of exchange except provision for depreciation which is translated on the same basis as the related fixed assets.

Net gains arising from the foregoing methods are shown on the Consolidated Statement of Earnings as Foreign exchange.

2. PIPE LINE TRANSPORTATION SYSTEM: PROVISION FOR DEPRECIATION:

The pipe line transportation system and accumulated depreciation by major classes are as follows:

	Investment, at cost	Accumulated depreciation	Net Investment December 31	
	December 31, 1971		1971	1970
	(in thousands of dollars)			
Land	$ 2,180		$ 2,180	$ 1,818
Rights-of-way	12,706	$ 2,592	10,114	10,422
Pipe line	464,093	139,718	324,375	328,925
Pumping equipment, buildings and tanks	165,997	42,154	123,843	83,991
Construction in progress	1,196	—	1,196	10,127
	$646,172	$184,464	$461,708	$435,283

It is estimated that 1972 capital expenditures will amount to approximately $77,000,000. These will be financed by additional borrowing, details of which have not yet been determined, and by funds generated within the companies.

The companies' policy is to provide for depreciation of fixed assets on the straight line method, at annual rates which will amortize the cost of depreciable properties over their estimated service lives, after taking into account possible salvage values. The rate of depreciation on the pipe line transportation system averages approximately 3%.

It is the companies' policy to capitalize interest during the construction period on funds borrowed specifically for additions to the pipe line transportation system. This amounted to $1,115,000 during 1971.

3. LONG TERM DEBT:

	Originally issued	Outstanding December 31 1971	1970
	(in thousands of dollars)		
Interprovincial Pipe Line Company—			
First Mortgage and Collateral Trust Bonds—			
Series C—4% due April 1, 1973	$60,000 U.S.	$ 16,668	$ 20,372
D—3⅝% due April 1, 1974	30,000 U.S.	10,114	11,951
E—5½% due April 1, 1985	12,000 Can.	10,610	11,010
Sinking Fund Debentures (unsecured)—			
Series A—6% due November 1, 1986	35,000 Can.	30,704	33,164
B—9⅜% due December 1, 1990	60,000 Can.	60,000	60,000
Bank Loan (unsecured)—			
Repayable over the five year period 1972-1976		17,500	20,000
Lakehead Pipe Line Company, Inc.—			
Sinking Fund Debentures (guaranteed by Interprovincial)—			
Series A—6½% due August 1, 1992	30,000 U.S.	32,298	32,298
B—7⅛% due April 15, 1993	75,000 U.S.	80,755	80,755
Bank Loan (guaranteed by Interprovincial)—			
$28,000,000 U.S., repayable over the three year period 1972-1974		30,185	30,185
		288,834	299,735
Less—Current portion of long term debt		24,555	6,906
		$264,279	$292,829

Interprovincial and Lakehead bank loans bear interest based on the prevailing prime bank rates which may vary from time to time. Repayment of these loans may be accelerated at any time without penalty.

Principal repayments required on Long Term Debt for the years 1973 through 1976 are $23,602,000, $20,343,000, $6,102,000 and $20,625,000 respectively.

4. DEFERRED INCOME TAXES:

Under Canadian and United States income tax regulations more depreciation may be deducted for tax purposes than the amount recorded in the accounts; also, during construction periods interest capitalized and, in the United States, sales and property taxes capitalized, may be claimed for tax purposes in the year incurred. The companies are taking advantage of the maximum deductions permitted for tax purposes which results in a deferment of taxes to future years when amounts deductible will be less than the depreciation recorded in the accounts.

3. LONG TERM DEBT:

	Originally issued	Outstanding December 31 1972	1971
	(in thousands of dollars)		
Interprovincial Pipe Line Company—			
First Mortgage and Collateral Trust Bonds—			
Series C—4% due April 1, 1973 (to be refinanced) - - -	$60,000 U.S.	$ 11,944	$ 11,944
D—3⅝% due April 1, 1974 - - - - - - -	30,000 U.S.	5,932	8,276
E—5½% due April 1, 1985 - - - - - - -	12,000 Can.	9,746	10,210
Sinking Fund Debentures (unsecured)—			
Series A—6% due November 1, 1986 - - - - - -	35,000 Can.	29,400	30,704
B—9⅜% due December 1, 1990 - - - - -	60,000 Can.	60,000	60,000
Bank Loan (unsecured)—			
Repayable: $5,000,000—1974; $10,000,000—1976 - -		15,000	15,000
Lakehead Pipe Line Company, Inc.—			
Sinking Fund Debentures (guaranteed by Interprovincial)—			
Series A—6½% due August 1, 1992 - - - - - -	30,000 U.S.	32,298	32,298
B—7⅛% due April 15, 1993 - - - - - -	75,000 U.S.	80,754	80,754
C—7.60% due June 15, 1997 - - - - - -	30,000 U.S.	29,522	—
Bank Loan (guaranteed by Interprovincial)—			
$7,000,000 U.S., repayable in 1974 - - - - - -		7,546	15,093
		$282,142	$264,279

Interprovincial and Lakehead bank loans bear interest at ¾% and ½%, respectively, above applicable prime bank rates. Repayment of these loans may be accelerated at any time without penalty.

Principal repayments required on Long Term Debt for the years 1974 through 1977 are $20,343,000, $6,102,000, $20,625,000 and $10,699,000 respectively.

The First Mortgage and Collateral Trust Bonds of Interprovincial are secured by a charge on all assets of the company; no further Bonds may be issued.

4. CAPITAL STOCK:

Share purchase warrants were issued in 1966 with the Series A Sinking Fund Debentures. Each warrant entitles the holder to purchase one share of capital stock of the company for $17 on or before November 1, 1976. During 1972 warrants to purchase 23,550 shares were exercised for a total cash consideration of $401,000, leaving 845,425 share purchase warrants outstanding at December 31, 1972.

Under the Employee Incentive Stock Option Plan, 250,000 authorized shares of the capital stock have been reserved for issuance upon the exercise of stock options which may be granted to full-time employees at not less than 90% of market value of the shares on the day that an option is granted. Options may be granted for a term not exceeding ten years and are exercisable only after one year of employment

from date of grant. During 1972 options for 27,850 shares were exercised for a total cash consideration of $485,000 and no options were granted. At December 31, 1972 options were outstanding as follows:

Exercisable on or before April 8, 1979 at $17 per share	39,500 shares
Exercisable on or before April 7, 1980 at $20.50 per share	45,000 shares
Exercisable on or before April 13, 1981 at $25.80 per share	52,000 shares
	136,500 shares

Outstanding options include 21,500 shares to officers, including the one director who is a full-time employee. At year end 52,500 shares were available for future grants.

Cash received from the exercising of share purchase warrants and stock options was credited to Capital stock to the extent of $1 par value for each share issued and the remainder of $834,000 was credited to Contributed surplus.

5. MICHIGAN FRANCHISE TAX:

The State of Michigan has issued assessments against Lakehead for franchise tax for the years 1957 through 1972. This tax imposes an annual fee upon all corporations for the privilege of doing business in Michigan. Counsel has advised that the assessments are unconstitutional when imposed on corporations engaged solely in interstate and foreign commerce. Lakehead has commenced litigation against the State of Michigan to have the assessments set aside.

Pending determination of the issue, the company has been providing annually for the tax and interest involved which amount to $2,604,000 at December 31, 1972 of which $287,000 was provided in the current year. The tax and interest will be deductible for income tax purposes at the time any assessments are paid and accordingly the tax effect has been included in Deferred Income Taxes.

6. REMUNERATION OF DIRECTORS AND OFFICERS:

In 1972 aggregate remuneration of twelve directors, one of whom is not paid as a director, was $31,000. Aggregate remuneration of four officers, two of whom are directors including one who is not paid as an officer, was $122,000. None of the directors or officers has received remuneration from any of the company's subsidiaries.

AUDITORS' REPORT

To the Shareholders of
INTERPROVINCIAL PIPE LINE COMPANY:

We have examined the consolidated balance sheet of Interprovincial Pipe Line Company and subsidiary companies as at December 31, 1972 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta
February 8, 1973

PRICE WATERHOUSE & CO.
Chartered Accountants.

ten year review

		1971
FINANCIAL (in thousands of dollars except per share amounts)	Income	$147,264
	Expenses	$ 76,208
	Income taxes	$ 35,416
	Earnings	$ 35,640
	per share, weighted average	$ 1.40
	Dividends paid	$ 21,892
	per share	$ 0.86
	percentage of earnings	61%
	Working capital (deficit)	$ (818)
	Funds provided from operations	$ 61,719
	Additions to pipe line system	$ 44,783
	Investment in pipe line system (cost)	$646,172
	Long term debt	$264,279
STATISTICAL	Shares outstanding at year end *(thousands)*	25,476
	Percentage of shares registered in Canada	93%
	Shareholders at year end	19,576
	Number of employees at year end	677
	Investment in pipe line system, per employee	$954,000
	Receipts *(barrels per day)*	
	Alberta	743,411
	Saskatchewan	217,034
	Manitoba	15,575
	Ontario	2,751
	United States	3,228
		981,999
	Deliveries *(barrels per day)*	
	Canada	
	Western Canada	116,163
	Ontario	390,798
		506,961
	United States	
	Minnesota—Wisconsin	159,142
	Illinois—Indiana	89,309
	Michigan—Ohio	120,098
	New York—Pennsylvania	101,840
		470,389
		977,350
	Barrel miles *(millions)*	488,862
	Average mileage per barrel delivered	1,370
	Average transportation revenue per barrel	40.5¢

1970	1969	1968	1967	1966	1965	1964	1963	1962
135,350	115,459	106,581	94,441	89,006	80,292	74,983	69,999	66,570
73,322	64,200	53,870	45,719	40,599	34,798	32,998	31,013	27,914
32,531	26,833	29,377	26,197	25,884	25,157	22,783	21,206	20,977
29,497	24,426	23,334	22,525	22,523	20,337	19,202	17,780	17,679
1.16	0.96	0.92	0.89	0.89	0.80	0.75	0.70	0.70
20,352	18,316	18,316	18,315	18,314	17,551	16,787	15,755	15,491
0.80	0.72	0.72	0.72	0.72	0.69	0.66	0.62	0.61
69%	75%	78%	81%	81%	86%	87%	89%	88%
31,848	(10,490)	(14,122)	(10,277)	24,409	(12,177)	(18,572)	(16,057)	689
52,825	49,137	45,864	39,053	35,286	32,648	30,989	30,443	28,537
17,795	70,595	114,189	76,721	4,513	11,172	7,661	23,453	12,350
602,312	587,340	518,799	405,657	334,507	330,676	320,023	312,670	289,465
292,829	265,184	223,470	141,191	119,087	93,663	90,992	100,073	108,378
25,443	25,439	25,439	25,439	25,436	25,436	25,436	25,415	25,402
93%	92%	91%	90%	89%	88%	88%	87%	86%
21,066	21,996	21,486	18,321	16,290	15,521	14,127	12,757	12,582
641	603	562	621	599	589	592	598	608
940,000	974,000	923,000	653,000	558,000	561,000	541,000	523,000	476,000
659,382	542,093	475,437	386,331	340,263	313,923	271,366	271,610	251,214
224,890	225,755	236,613	239,466	245,435	228,777	216,250	190,281	171,657
16,452	17,489	17,524	15,863	14,812	14,110	12,608	10,887	11,190
817	550	205	—	—	—	—	—	—
2,579	—	—	3,502	6,836	4,903	4,487	4,178	123
904,120	785,887	729,779	645,162	607,346	561,713	504,711	476,956	434,184
116,386	111,504	106,832	107,050	106,817	106,118	90,313	88,176	89,629
380,570	351,270	338,624	317,969	320,145	308,226	285,556	267,903	235,897
496,956	462,774	445,456	425,019	426,962	414,344	375,869	356,079	325,526
142,686	135,451	116,196	97,371	94,054	85,318	75,990	63,587	55,671
49,836	—	—	—	—	—	—	—	—
121,822	105,540	96,847	60,344	44,159	31,862	30,596	34,178	38,850
89,619	72,206	58,228	54,556	39,769	26,521	21,512	16,738	12,438
403,963	313,197	271,271	212,271	177,982	143,701	128,098	114,503	106,959
900,919	775,971	716,727	637,290	604,944	558,045	503,967	470,582	432,485
444,318	366,287	337,978	289,691	267,354	241,264	221,691	207,724	186,562
1,351	1,293	1,288	1,245	1,211	1,184	1,202	1,209	1,182
40.7¢	40.4¢	40.2¢	39.9¢	39.8¢	39.1¢	40.5¢	40.5¢	41.6¢

NOTE: Per share amounts and shares outstanding prior to 1967 adjusted for five-for-one subdivision of capital stock.

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